Today: Federal Taxes
Next Week: Virginia Taxes and Record Keeping

TAX PREPARATION SIMPLIFIED
WHAT WILL YOU NEED?

✖ All your tax documents
✖ Federal 1040 Instructions and Pub 17
  ➕ Other specialized IRS publications as required
  ➕ Search topic on irs.gov
✖ Virginia 760 Instructions
  ✖ If you don’t have full medical insurance (Medicare, Military, employer-furnished, you may receive additional forms
    ➕ Form 1095-A for ACA insurance purchased in the Marketplace
    ➕ Form 1095-B or 1095-C for private or employer-provided insurance respectively
### DEDUCTION S AND EXEMPTION S

**NON-REFUNDABLE CREDITS**

### PAYMENTS & REFUNDABLE CREDITS
NEW DOLLAR LIMITS

- The usual gang of suspects have been indexed for inflation
  + Standard Deduction
  + Personal and dependent exemptions
  + Phase out of Exemptions and Itemized Deductions
  + Business Mileage Rate
  + EIC Credits and Income Levels
  + Lots of others

- Check 1040 Instructions, Pub 17, and irs.gov for specific values
PROVISIONS RECENTLY EXTENDED

- Cancellation of Debt (COD) exclusion for principal residence mortgage forgiveness
  + Form 982 and Instructions
- Qualified Charitable Distribution—QCD (Tax-free distribution from IRAs to public charities for individuals age 70½ or older)
  + 1040 Line 16a and 16b
- Adjustment for educator classroom expenses up to $250 ($500 MFJ if both are educators)
  + Enter on 1040 Line 23
PROVISIONS RECENTLY EXTENDED (CONT’D)

- Adjustment for qualified tuition and fees
  - Enter on 1040 Line 34
  - Why is this important?
    - For low income taxpayers, reducing AGI increases EIC
    - For taxpayers with low/no tax liability, Life Long Learning Credit could be wasted

- Deduction for state and local general sales taxes
  - Might exceed deduction for state income tax
  - Enter qualified amount on Sch A (Sales Tax calculator on irs.gov)
  - Can increase by major purchases like a car
PROVISIONS RECENTLY EXTENDED (CONT’D)

- Premiums for mortgage insurance deductible as interest for qualified residence
  - Enter on Sch A Line 13

- Nonbusiness energy property credit
  - $500 life-time limit on credit
  - Same rules/limits as last year
  - Calculate on Form 5695
  - Enter on 1040 Line 53
NEW PROVISIONS (LESS ACA)

- Limit on Long Term Care Insurance benefits characterized as “per diem” payments
  - Calculate on Form 8853 Section C and report on 1040 Line 21

- IRS may accept certain explanations for not taking your Required Minimum Distribution
  - Report on Form 5329 Pg 2 Sec VIII
  - Write “waiver” on Line 53 and provide a note explaining why you didn’t take the RMD
  - IRS may not accept it and will send you a bill
ACHIEVING A BETTER LIFE EXPERIENCE (ABLE)

- The Stephen Beck, Jr., Achieving a Better Life Experience Act of 2014 (ABLE) was enacted on December 19, 2014, to help blind or disabled people save money in a tax-favored ABLE account to maintain health, independence, and quality of life. Contribute up to $14,000 into an ABLE account
- Distributions are tax-free if used for designated health, independence, and quality of life expenses
- See Pub 907 for details
ACA OVERVIEW

- Everyone must have Minimum Essential Coverage (MEC) or pay a Shared Responsibility Payment (SRP)
- If you have employer-sponsored insurance, Medicare, Medicare Advantage, Tricare (and some others) you have MEC
- If you buy insurance in the Marketplace you may be eligible for help in the form of a Premium Tax Credit (PTC)
  + You will receive a Form 1095-A
  + Family income between 100% and 400% of FPL
- If you got a PTC based on projected 2015 income and family status and 2015 actuals are different
  + You might have to pay some of it back
  + You might be eligible for more
- The 1040 is where the ACA books are balanced
MINIMUM ESSENTIAL COVERAGE

- Examples of MEC
  - Individual Insurance purchased from an insurance company
  - Medicare Part A
  - Medicare Advantage Plans
  - Tricare
  - Employer-sponsored coverage, including COBRA and retiree coverage

- If you, and everyone in your household for whom you claim a deduction, has MEC, then you don’t need to worry anymore about ACA
  - Check the 1040 Line 61 box and move on
EXEMPTIONS

- If you don’t have MEC, you may be liable for a Shared Responsibility Payment (SRP)
- There are several SRP exemptions available, including
  - Income below the filing threshold
  - Short gap of less than 3 months
  - Affordability
  - Religious objections
  - Incarceration
- Use Form 8965 Instruction Booklet
“BALANCING THE ACA BOOKS”

- If you and your household haven’t had MEC for every month of 2015
  - Claim any exemptions using Form 8965
  - For any month with neither MEC nor an exemption, calculate your Shared Responsibility Payment using the SRP worksheet in Form 8965 Instructions
- If you have received or are eligible for a premium tax credit
  - Use Form 1095-A and Form 8692 to reconcile PTC
- ACA can get complicated. Read the instructions carefully
SOME SENIOR-RELATED TAX ISSUES

- Filing Status
- Interest & Dividends
- Capital Gains including Sale of Home
- IRA Distributions
- Pensions
- Social Security
- Itemized Deductions
- Estimated Taxes & Penalties
FILING STATUS

- Why is Filing Status important?
- Affects:
  - Tax
  - Standard Deduction
  - Eligibility for Credits
- More than one may apply
- One of most common errors
FILING STATUS OPTIONS

- Single
- Married Filing Jointly
  - Valid if spouse died during TY
- Married Filing Separately
- Head of Household
  - Single with a qualifying dependent
- Qualifying Widow(er)
  - Spouse died during prior two years
  - Provide home for a qualifying dependent child or stepchild
  - Not a grandchild or foster child
INTEREST AND DIVIDENDS

- 1099-INT, 1099-DIV or 1099-OID
- Watch for:
  - Muni Bond interest - tax exempt
  - Treasury Bond interest - taxable
  - Savings Bond interest taxable unless used for education
  - Qualified dividends – Taxed at Capital Gains tax rate
CAPITAL GAINS

- Broker’s Statements (1099-B) changed again
- Report transactions on Form 8949
- Totals go to Schedule D
- Inherited Stock or Home (basis stepped up - except 2010 – need executor’s statement of basis)
- Don’t forget any Capital Loss Carryover
- Capital gain tax rates are much lower
  + 0% for taxpayers in 10% and 15% brackets
  + 15% most other taxpayers
  + 20% for 39.6% high income bracket
SALE OF HOME

- 1099-S received from broker if reportable
- Can exclude $250K/$500K of gain if:
  + Main home
  + Ownership and use tests met
  + If spouse dies and house sold within 2 years, $500K exclusion applies
- Basis = Cost + Improvements
- Postponed gain? (from pre 1997 sale)
- Report net gain (if any) on Sch D
- Loss not allowed
- If you can exclude the entire gain, no report is required
FORECLOSURES

- If foreclosed, Form 1099-A received
  - Must report on Sch D
- If debt cancelled, Form 1099-C is received
  - Report on Form 982 to exclude from income
  - Note: Other types of cancelled debt, e.g., credit card debt, will be reported to you on Form 1099-C and to IRS on 1040, line 21, as “Other Income”
- Cannot claim a loss
IRA DISTRIBUTIONS

- Form 1099-R received
- Roth IRA distributions not taxable (usually)
- Traditional IRA distributions usually taxable (Code 7 in Box 7)
- Note codes and read instructions
  - May not be taxable, but:
    - May be a penalty (e.g., early distributions)
- Remember RMD’s
PENSIONS

- Forms: 1099-R, RRB-1099R, or CSA-1099R
- Usually “Taxable Amount” shown in Box 2
- If not, and if contributions made:
  - Use “Simplified Method” worksheet if pension started after July 1, 1986
  - If not use “General Rule” (Pub 939)
- If you have non-deductible contributions in your pension, you will use Form 8606
SOCIAL SECURITY OR EQUIVALENT RRB

- Social Security
  - Reported on SSA-1099
- Railroad Retirement Tier 1
  - Reported on RRB-1099
  - Equivalent to Social Security
  - Same rules as Social Security
- Up to 85% may be taxable - use worksheet
- Note insurance premiums & tax withholdings
ITEMIZED DEDUCTIONS ON SCHEDULE A

- Qualified Medical Expenses (if > 7.5% or 10% based on age)
- Certain Taxes paid
- Certain Interest paid
- Certain Gifts to Charity
- Certain Miscellaneous Expenses
MEDICAL EXPENSES

- Expenses must be:
  + Qualified - see instructions
  + Un-reimbursed
  + Paid by and for taxpayer, spouse or dependents

- Expenses include:
  + Medical and dental insurance premiums
  + Long Term Care premiums up to age related limit
  + Prescription medicines, glasses
  + Insulin does not require a prescription
  + Mileage to get medical treatment or supplies ($0.19/mile)

- But only to extent they exceed 7.5% of AGI
DEDUCTIBLE TAXES

- State and Local Income or Sales taxes
- Real Estate taxes (reported by mortgage company on Form 1098 if paid from escrow)
- Personal Property taxes (if based on value of property/car)
DEDUCTIBLE INTEREST

- Home Mortgage Interest:
  - Interest reported on form 1098
  - Points on initial loan
  - Amortized points after refinancing
  - Qualified Mortgage Insurance premiums

- Investment Interest paid
  - Use Form 4952 to report
CHARITABLE CONTRIBUTIONS

- Cash:
  - Receipts or bank records required

- Non-cash contributions require:
  - Receipt
  - Form 8283 if total over $500
  - Appraisal if over $5000
  - Form 1098-C if a car (some exceptions)
  - Clothing, etc. - “Thrift Shop” value in “good or better” condition

- Out-of-pocket expense:
  - Travel @ $0.14/mile
  - Tolls and parking can be included
MISCELLANEOUS DEDUCTIONS

To the extent they exceed 2% of AGI:
- Tax Preparation Fees
- Certain investment expenses
- Other - See Schedule A Instructions

Other Miscellaneous Deductions not subject to the 2% discount:
- Gambling losses up to extent of winnings
- Unrecovered investment in an annuity
CREDITS

- **Foreign Tax Credit** – Enter on 1040 line 48 or Form 1116 if > $300/$600 (MFJ)
- **Credit for the Elderly** – no one qualifies!
  + See Pub 524
- **Education Credits**
  + American Opportunity Credit (1st 4 years of College)
  + Life Time Learning Credit (All post secondary courses and courses to improve job skills)
- **Residential Energy Credit** ($500 max)
- **Repayment of 2008 Home Buyers Credit**
UNDERPAYMENT PENALTY

- Due if tax owed exceeds $1000, unless:
  - Withholdings exceed:
    + 90% of current year tax liability, or
    + 100% of prior year tax liability, or
    + 110% of prior year tax liability if AGI is over $150,000
- Consider quarterly estimated tax payments
FINALLY, BEWARE THE AMT!

- AMT exemption amount is indexed to keep most taxpayers out of AMT situations
- Primary AMT exposure comes at high incomes, high deductions, and/or certain kinds of investments
  + Passive activity losses
  + Accelerated depreciation
  + Incentive stock options
  + Certain intangible drilling costs
- Requires a complicated form – Form 6251
**TAX PREP SERVICES: BUYER BEWARE**

(From the National Consumer Law Center and Consumer Federation of America)

- Most paid tax preparers are not subject to any minimum educational, training, or competency standards
  - IRS is prohibited from requiring testing and continuing education
  - Only 4 States regulate paid preparers (MD, OR, CA, NY)
  - The only tax preparers required to pass an IRS-approved test are CPAs, enrolled agents, and VITA (includes AARP Tax-Aide)
- You often cannot comparison shop the fees you may be charged
  - GAO “shoppers” found fees for same service can vary by up to 300%
- **ALL** forms of advanced refund payment systems result in usurious interest rates and fees (RAC, RAL, Pre-paid debit cards, all of them)
- At the end of the day, it is your tax return and the IRS will hold you responsible for filing a correct tax return
WHAT ELSE DO YOU WANT TO TALK ABOUT?