John Higgins

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
### Income

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wages, salaries, tips, etc. Attach Form W-2.</td>
</tr>
<tr>
<td>2</td>
<td>Taxable interest. Attach Schedule B if required.</td>
</tr>
<tr>
<td>3</td>
<td>Total amount of interest. Do not include on line 1a.</td>
</tr>
<tr>
<td>4</td>
<td>Capital gain or (loss). Attach Schedule D if required.</td>
</tr>
<tr>
<td>5</td>
<td>Tax-exempt interest. Do not include on line 1a.</td>
</tr>
<tr>
<td>6</td>
<td>Ordinary dividends. Attach Schedule B if required.</td>
</tr>
<tr>
<td>7</td>
<td>Total dividends.</td>
</tr>
<tr>
<td>8</td>
<td>Qualifying dividends.</td>
</tr>
<tr>
<td>9</td>
<td>Total taxable dividends.</td>
</tr>
<tr>
<td>10</td>
<td>Taxable dividends.</td>
</tr>
<tr>
<td>11</td>
<td>Interest on corporate bonds.</td>
</tr>
<tr>
<td>12</td>
<td>Interest on paying bonds.</td>
</tr>
<tr>
<td>13</td>
<td>Taxable interest.</td>
</tr>
<tr>
<td>14</td>
<td>Other gains or (losses). Attach Form 4797.</td>
</tr>
<tr>
<td>15</td>
<td>IRA distributions.</td>
</tr>
<tr>
<td>16</td>
<td>Net rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E.</td>
</tr>
<tr>
<td>17</td>
<td>Farm income or (loss). Attach Schedule F.</td>
</tr>
<tr>
<td>18</td>
<td>Unemployment compensation.</td>
</tr>
<tr>
<td>19</td>
<td>Social security benefits.</td>
</tr>
<tr>
<td>20</td>
<td>Total other income. Use correct check box on line 23.</td>
</tr>
<tr>
<td>21</td>
<td>Total other income. Use correct check box on line 23.</td>
</tr>
<tr>
<td>22</td>
<td>Add lines 20 through 21. This is your total income.</td>
</tr>
</tbody>
</table>

### Adjustments

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Educator expenses. Attach Form 1098-E.</td>
</tr>
<tr>
<td>24</td>
<td>Certain business expenses of reservists, performing artists, and tax-exempt government officials. Attach Form 2106 or 2126-EZ.</td>
</tr>
<tr>
<td>25</td>
<td>Health savings account deduction. Attach Form 8889.</td>
</tr>
<tr>
<td>26</td>
<td>Health savings account deduction. Attach Form 8889.</td>
</tr>
<tr>
<td>27</td>
<td>Deducible part of self-employment tax. Attach Schedule SE.</td>
</tr>
<tr>
<td>28</td>
<td>Self-employed SE. SIMPLE, and qualified plans.</td>
</tr>
<tr>
<td>29</td>
<td>Self-employed health insurance deduction.</td>
</tr>
<tr>
<td>30</td>
<td>Penalty on early withdrawal of savings.</td>
</tr>
<tr>
<td>31</td>
<td>Alimony paid.</td>
</tr>
<tr>
<td>32</td>
<td>IRA contribution.</td>
</tr>
<tr>
<td>33</td>
<td>Student loan interest deduction.</td>
</tr>
<tr>
<td>34</td>
<td>Tuition and fees. Attach Form 8917.</td>
</tr>
<tr>
<td>35</td>
<td>Domestic production activities deduction. Attach Form 8903.</td>
</tr>
<tr>
<td>36</td>
<td>Add lines 23 through 35. Subtract line 36 from line 22. This is your adjusted gross income.</td>
</tr>
</tbody>
</table>

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.
DEDUCTIONS AND EXEMPTIONS

NON-REFUNDABLE CREDITS

OTHER TAXES

PAYMENTS & REFUNDABLE CREDITS
WHAT’S NEW

- Last day for filing is **Tuesday, April 18**
- Refunds that include EIC and/or Additional (refundable) CTC will be held by IRS until Feb 15
- New Form W-2 Verification Code Program is being expanded
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 EXTENDED THROUGH 2016

- Cancellation of Debt (COD) exclusion for principal residence mortgage forgiveness
  + Form 982 and Instructions
- 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
PROVISIONS EXTENDED THROUGH 2016

- 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
SOME SENIOR RELATED TAX ISSUES

- Limit on Long Term Care Insurance benefits characterized as “per diem” payments
  - $330/day or less not taxable (IRS Pub 525)
  - Calculate on Form 8853 Section C
  - Report excess 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 2016 income and family status and 2016 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 2016
  + 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
TAX BASICS FROM A SENIOR VIEWPOINT

- Filing Status
- Interest & Dividends
- Capital Gains including Sale of Home
- IRA Distributions
- Pensions
- Social Security
- Itemized Deductions
- Estimated Taxes & Penalties
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
- There are Virginia exceptions for what is tax exempt or taxable federally
CAPITAL GAINS

- Reported on Broker’s Statements (1099-B or equivalent)
- 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

- Can exclude $500K (MFJ)/$250K (all others) 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
- 1099-S received from broker must be reported
FORECLOSURES AND DEBT CANCELLATION

- If foreclosed, Form 1099-A received
  - Must report on Sch D
- If debt cancelled, Form 1099-C is received
  - Report Mortgage Debt Cancellation on Form 982 to exclude from income (adjust basis in home)
- 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 (Code Q in Box 7)
- 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)
- If you have non-deductible contributions in your IRA, you will use Form 8606
- 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)
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)
  - 10% for all ages starting in 2017
- Certain Taxes paid
- Certain Interest paid
- Certain Gifts to Charity
- Certain Miscellaneous Expenses

CHANGED
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%/10% 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
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)
**OTHER TAXES**

- Several other taxes on 1040 lines 57 – 62
  - Self employment tax
  - Tax on unreported tip income
  - Repayment of 2008 Home Buyers Credit
  - Others
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?