John Higgins

Today: Virginia Taxes and Record Keeping

TAX PREPARATION SIMPLIFIED

TODAY'S TAX TOPICS

- 1. Virginia Tax Law
- 2. Organizing your tax records

VIRGINIA TAXES

- They are complicated!
- Little help is available
- So many people pay too much
- Why?
- Because they are unaware of:
  - Allowable subtractions/deductions
  - Available credits
  - How to maximize the spouse tax adjustment

WHO NEEDS TO FILE IN VIRGINIA

- Every Virginia resident whose Virginia adjusted gross income (VAGI) is at or above the minimum threshold must file
  - Single - VAGI is $11,950 or more
  - MFJ - VAGI is $23,900 or more
  - MFS - VAGI is $11,950 or more
- Complete Form 760, Lines 1 through 9, to determine VAGI

WHAT'S NEW IN VIRGINIA

- Not much this year – see 760 Instructions
- Allowed a $2000 Deduction for contributions to an ABLE account (unlimited if age 70+)
- Additional arcane tax credits for food crop donations and R&D expenses

COMMON VIRGINIA TAX FORMS

- 760 is the basic VA tax return
- Schedule ADJ
  - Additions, Subtractions, and Deductions not directly entered on 760
- Schedule CR is for credits
  - Generally pretty obscure special credits
  - See instructions
- Schedule VAC is to allocate refund to Virginia College Savings account and other voluntary contributions listed in 760 instructions
- 760C is for underpayment penalties if applicable
  - Total withholding less than 90% of tax due
- 760 ES is for making estimated tax payments

VIRGINIA OVERVIEW

FEDERAL ADJUSTED GROSS INCOME (AGI)

+ ADDITIONS

- SUBTRACTIONS

= VIRGINIA AGI

- DEDUCTIONS

- EXEMPTIONS

=VIRGINIA TAXABLE INCOME

x TAX TABLES

= TAX

- SPOUSE TAX ADJUSTMENT

- CREDITS

- TAX ALREADY PAID

= TAX OWED/REFUND

FIXED DATE CONFORMITY

- What is that??
- Virginia "conforms" to the Internal Revenue Code with some exceptions
- That conformance is renewed annually by the Legislature effective through Dec 31 of the tax year – the "fixed date"
- If you have income that falls in the exceptions, you have to add adjust your Va taxable income accordingly.
  - Examples include bonus depreciation, certain types of NOL, high-yield discount notes, and some business debt cancellation

BIO DATA

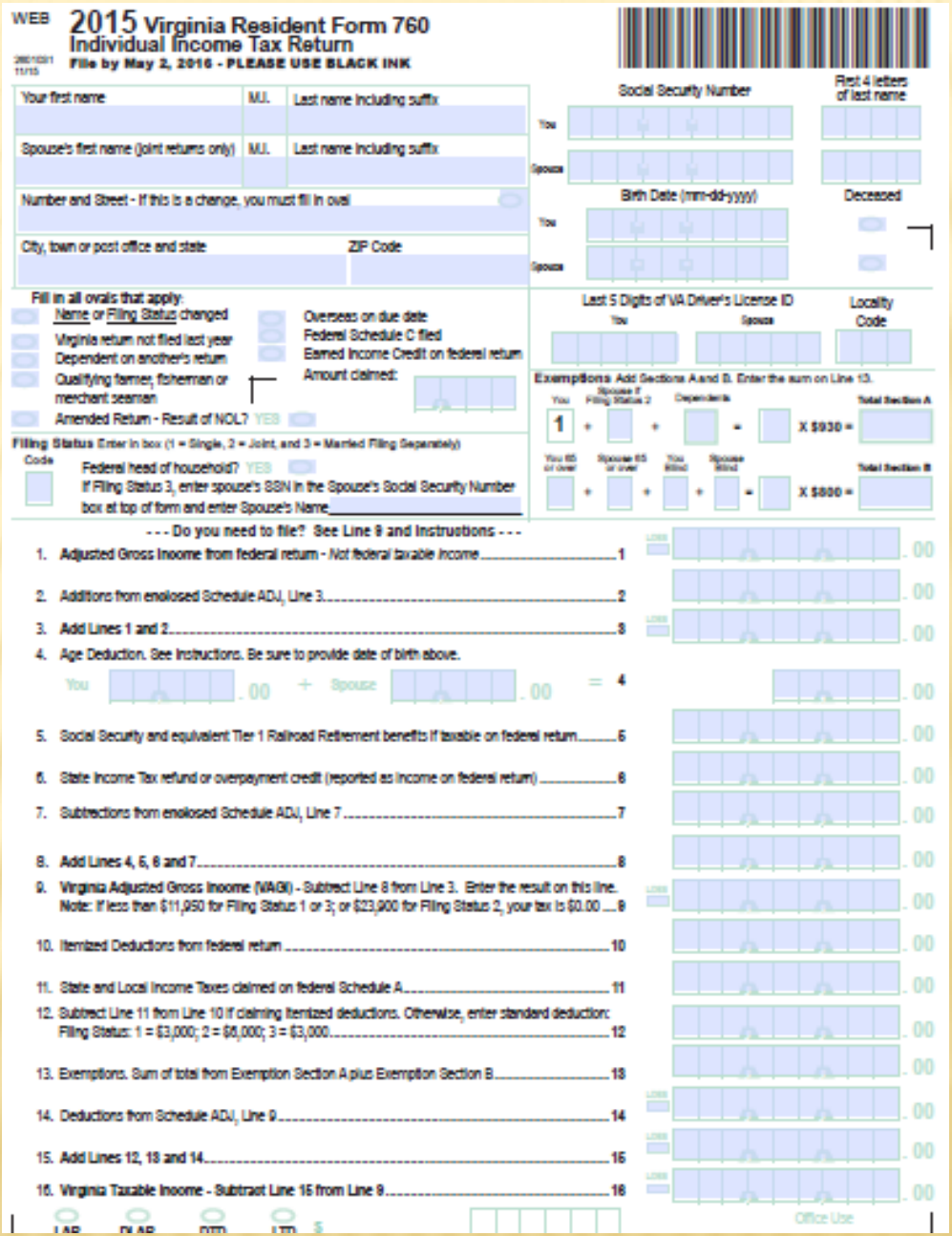
FEDERAL AGI

ADDITIONS & SUBTRACTIONS

VIRGINIA AGI

DEDUCTIONS & EXEMPTIONS

VIRGINIA TAXABLE INCOME



WEB

2015 Virginia Resident Form 760
Individual Income Tax Return
File by May 2, 2016 - PLEASE USE BLACK INK

Your first name | M.I. | Last name including suffix

Spouse's first name (joint returns only) | M.I. | Last name including suffix

Number and Street - If this is a change, you must fill in oval

City, town or post office and state | ZIP Code

Social Security Number | First 4 letters of last name

You

Spouse

Birth Date (mm-dd-yyyy) | Deceased

You

Spouse

Fill in all ovals that apply:

- Name or Filing Status changed
- Virginia return not filed last year
- Dependent on another's return
- Qualifying farmer, fisherman or merchant seaman
- Amended Return - Result of NOL? YES
- Overseas on due date
- Federal Schedule C filed
- Earned Income Credit on federal return
- Amount claimed:

Last 5 Digits of VA Driver's License ID | Locality Code

You | Spouse

Exemptions Add Sections A and B. Enter the sum on Line 13.

Section A: You (1) + Spouse if Filing Status 2 + Dependents = Total Section A × $930 =

Section B: You 65 or over + Spouse 65 or over + You Blind + Spouse Blind = Total Section B × $800 =

Filing Status Enter in box (1 = Single, 2 = Joint, and 3 = Married Filing Separately)

Code

Federal head of household? YES

If Filing Status 3, enter spouse's SSN in the Spouse's Social Security Number box at top of form and enter Spouse's Name

--- Do you need to file? See Line 9 and Instructions ---

1. Adjusted Gross Income from federal return - *Not* federal taxable income 1
2. Additions from enclosed Schedule ADJ, Line 3 2
3. Add Lines 1 and 2 3
4. Age Deduction. See Instructions. Be sure to provide date of birth above.
   You .00 + Spouse .00 = 4
5. Social Security and equivalent Tier 1 Railroad Retirement benefits if taxable on federal return 5
6. State Income Tax refund or overpayment credit (reported as income on federal return) 6
7. Subtractions from enclosed Schedule ADJ, Line 7 7
8. Add Lines 4, 5, 6 and 7 8
9. Virginia Adjusted Gross Income (VAGI) - Subtract Line 8 from Line 3. Enter the result on this line. Note: If less than $11,950 for Filing Status 1 or 3; or $23,900 for Filing Status 2, your tax is $0.00 9
10. Itemized Deductions from federal return 10
11. State and Local Income Taxes claimed on federal Schedule A 11
12. Subtract Line 11 from Line 10 if claiming itemized deductions. Otherwise, enter standard deduction: Filing Status: 1 = $3,000; 2 = $6,000; 3 = $3,000 12
13. Exemptions. Sum of total from Exemption Section A plus Exemption Section B 13
14. Deductions from Schedule ADJ, Line 9 14
15. Add Lines 12, 13 and 14 15
16. Virginia Taxable Income - Subtract Line 15 from Line 9 16

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PERSONAL & DEPENDENT EXEMPTIONS

TAX INCLUDING STA

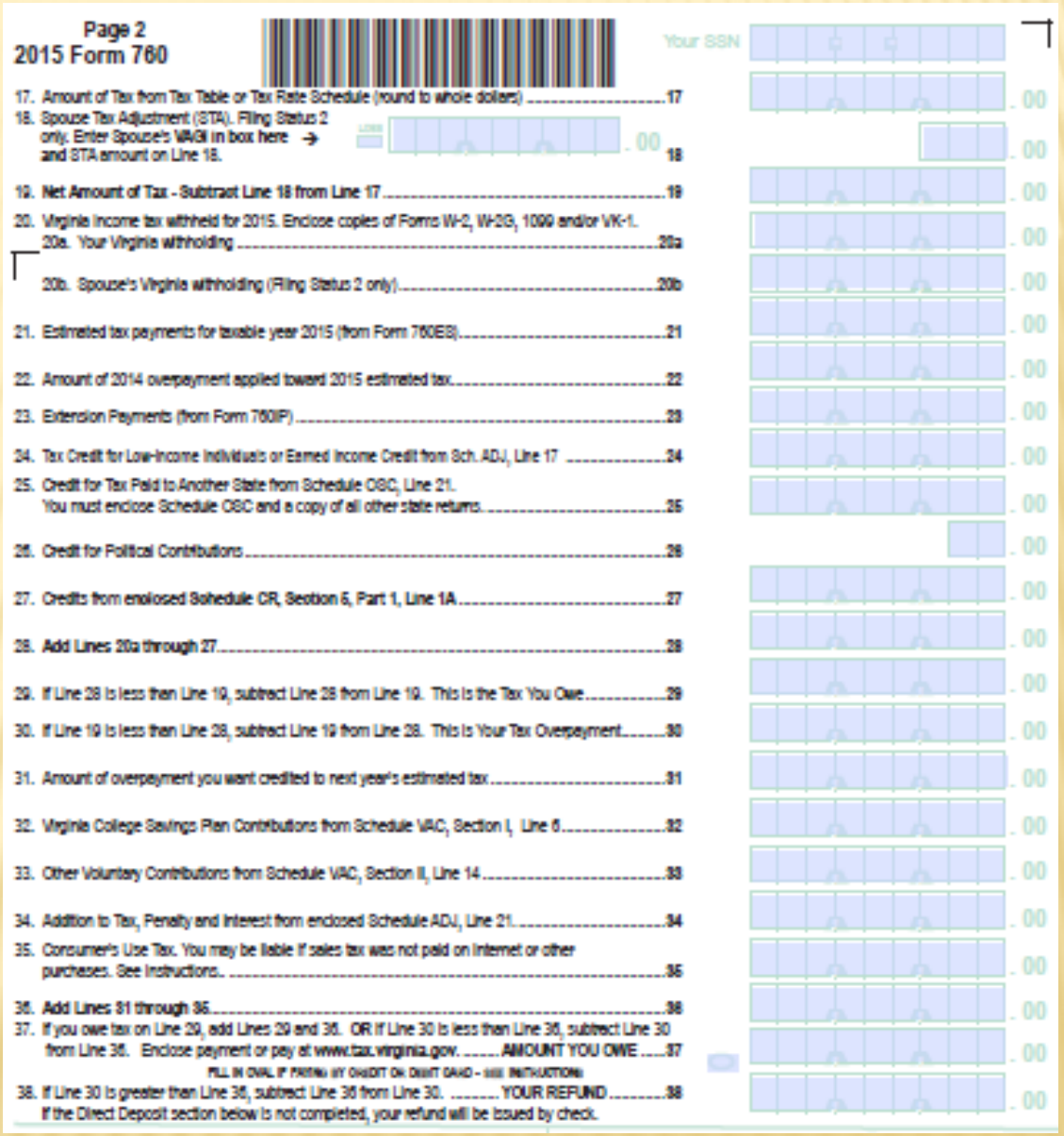
PAYMENTS

CREDITS

VOLUNTARY CONTRIBUTIONS

CONSUMER"S USE TAX

TAX OWED OR REFUND



Page 2
2015 Form 760

Your SSN

17. Amount of Tax from Tax Table or Tax Rate Schedule (round to whole dollars) 17
18. Spouse Tax Adjustment (STA). Filing Status 2 only. Enter Spouse's VAGI in box here → and STA amount on Line 18. 18
19. Net Amount of Tax - Subtract Line 18 from Line 17 19
20. Virginia income tax withheld for 2015. Enclose copies of Forms W-2, W-2G, 1099 and/or VK-1.
20a. Your Virginia withholding 20a
20b. Spouse's Virginia withholding (Filing Status 2 only) 20b
21. Estimated tax payments for taxable year 2015 (from Form 760ES) 21
22. Amount of 2014 overpayment applied toward 2015 estimated tax 22
23. Extension Payments (from Form 760IP) 23
24. Tax Credit for Low-Income Individuals or Earned Income Credit from Sch. ADJ, Line 17 24
25. Credit for Tax Paid to Another State from Schedule OSC, Line 21.
You must enclose Schedule OSC and a copy of all other state returns. 25
26. Credit for Political Contributions 26
27. Credits from enclosed Schedule CR, Section 5, Part 1, Line 1A 27
28. Add Lines 20a through 27 28
29. If Line 28 is less than Line 19, subtract Line 28 from Line 19. This is the Tax You Owe 29
30. If Line 19 is less than Line 28, subtract Line 19 from Line 28. This is Your Tax Overpayment 30
31. Amount of overpayment you want credited to next year's estimated tax 31
32. Virginia College Savings Plan Contributions from Schedule VAC, Section I, Line 6 32
33. Other Voluntary Contributions from Schedule VAC, Section II, Line 14 33
34. Addition to Tax, Penalty and Interest from enclosed Schedule ADJ, Line 21 34
35. Consumer's Use Tax. You may be liable if sales tax was not paid on Internet or other purchases. See Instructions. 35
36. Add Lines 31 through 35 36
37. If you owe tax on Line 29, add Lines 29 and 36. OR If Line 30 is less than Line 36, subtract Line 30 from Line 36. Enclose payment or pay at www.tax.virginia.gov. ..... AMOUNT YOU OWE 37
FILL IN OVAL IF PAYING BY CREDIT OR DEBIT CARD - SEE INSTRUCTIONS
38. If Line 30 is greater than Line 36, subtract Line 36 from Line 30. ..... YOUR REFUND 38
If the Direct Deposit section below is not completed, your refund will be issued by check.

VA ADDITIONS TO FED AGI

- 760 Line 1 is Federal AGI (1040 Line 37)
- 760 Line 2 is Additions from Schedule ADJ Line 3
  - E.g., Schedule ADJ Code 10 Interest on obligations of other states not taxed federally but taxable in Virginia

VA AGE DEDUCTION AND SUBTRACTIONS FROM FEDERAL AGI

- 760 Line 4 is the Age Deduction – use worksheet
  - As much as $12,000 for taxpayers 65 or older
  - Can be limited if Income minus SS benefits > $75,000
- 760 Line 5 subtracts SSI and RRB that was taxed on 1040 Line 20b – not taxed in Va
- 760 Line 6 subtracts the federally taxed state refund amount on 1040 Line 10
- 760 Line 7 is the total subtractions from Schedule ADJ Line 7 (see next slide)
- 760 Line 9 is your Virginia AGI (VAGI)

760 LINE 7 = SCHEDULE ADJ LINE 7

- Schedule ADJ Line 4 is income from obligations of the US not taxed in Va (e.g., US Savings Bond Interest)
- Schedule ADJ Line 5 is disability income reported as wages on 1040 (e.g., 1099-R Distribution Code 3)
  - If over 65 can deduct up to $20,000 if Age Deduction not taken
- Schedule ADJ Line 6 is other subtraction codes from the instructions. Common ones include:
  - Code 20 – Capital Gains on Va obligations (taxed by IRS, not Va)
  - Code 22 – RR retirement benefits (Pensions)
  - Code 24 – VA Lottery winnings less than $600 (Not a deduction or "floor" - $600 or more is fully taxable)
  - Code 34 – Certain distributions from College Savings plan (not used for education due to death, disability, or availability of scholarship funds)
  - Code 37 – Unemployment Benefits (taxed by IRS, not Va)

CALCULATING THE VIRGINIA TAXABLE INCOME

- 760 Line 9 is Virginia AGI
- 760 Line 10 is Federal Itemized Deductions
- 760 Line 11 and 12 add back the Federal "State Income Tax Deduction" or adds the Virginia Standard Deduction if not itemizing
- 760 Line 13 has the total personal and dependent exemptions from top of 760 page 1
- 760 Line 14 totals the Deductions from Schedule ADJ Line 9 (see next slide)
- 760 Line 15 is the Virginia Taxable Income

SCHEDULE ADJ DEDUCTIONS LINE 9

- Typical Deduction Codes on Schedule ADJ Line 8 that are totaled to Schedule ADJ Line 9
  - Code 101 – Child/Dependent Care (total expense, not just Federal Credit on 1040 Line 49)
  - Code 104 – Virginia College Savings Plan contributions (Up to $4000 except unlimited if over age 70)
  - Code 106 – Long Term Care Insurance Premiums, if not deducted on Fed Sch A Medical
  - Code 109 – Sales tax on energy efficient appliances
  - Code 111 – Charitable Miles ($0.18/mile in Va/$0.14 IRS)
  - Code 114 – Funeral, Medical, and/or Dental Insurance Premiums (for certain low income taxpayers age 66 or older)

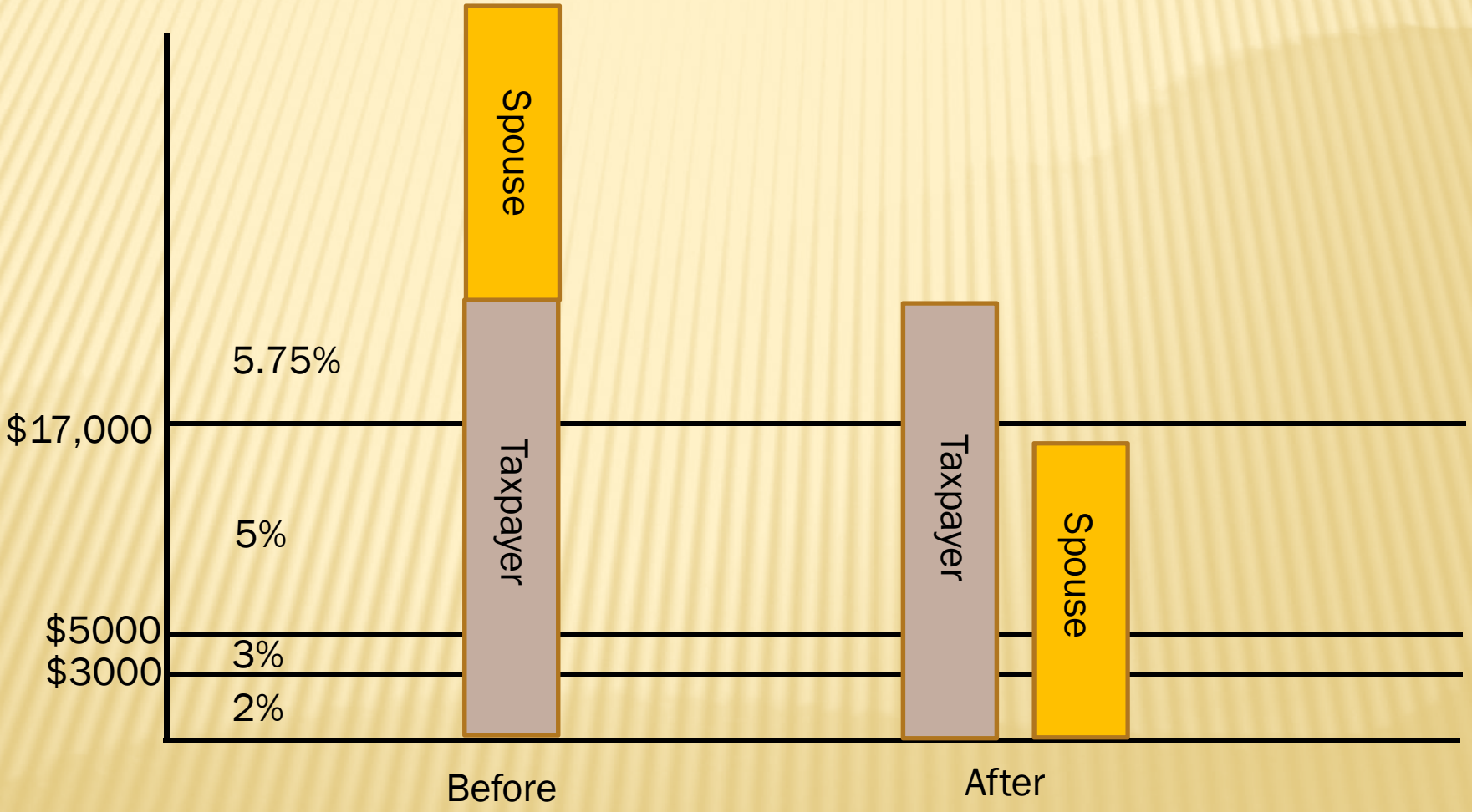
CALCULATING TAX OWED OR REFUNDED

- 760 Page 2 calculates the tax on Va Taxable Income and applies payments, credits, and voluntary contributions to arrive at your final refund or tax bill
- Some credits are worth examining
  - 760 Line 18 is the Spouse Tax Adjustment (STA) (see next slide)
  - 760 Line 24 is Va equivalent of Federal EIC
  - 760 Line 26 is credit for political contributions
    - One half the contribution up to $50 (MFJ)/$25 (all others) for state offices
  - 760 line 27 is credits from Schedule CR
    - Various obscure credits. See instructions
- 760 Page 2 Line 36 is the Consumer's Use Tax
  - Tax on internet and out-of-state purchases

SPOUSE TAX ADJUSTMENT (STA)

- VA only has one tax table for everyone
- STA corrects for MFJ taxpayers paying more than if they filed single
- Maximum adjustment is $259
  - Can shift joint income (interest, dividends, etc.) and expenses between spouses to get maximum STA
  - Strategy is to get one spouse close to, but under, $17K

EFFECT OF SPOUSE TAX ADJUSTMENT



TO CONCLUDE VIRGINIA TAXES

- Virginia Tax Laws are complicated
- You can reduce your Virginia taxes by:
  - Not missing Subtractions and Deductions
  - Optimizing the Spouse Tax Adjustment
  - Taking advantage of Credits
- Final Caution – Penalty threshold is low ($150)
- QUESTIONS OR COMMENTS ON VIRGINIA TAXES?

The Proverbial Shoebox
or
Is There a Better Way?

ORGANIZATION OF YOUR TAX RECORDS

THREE TYPES OF RECORDS

1. Essential for filing
   - Required by the IRS
2. Desirable for filing
   - Needed to maximize deductions & credits
3. Retention Documents
   - May be required in the long term

ESSENTIAL FILING DOCUMENTS

IRS NUMBERED INCOME FORMS

W-2	Wages
W-2G	Gambling Winnings
1099's	
Interest	1099-INT & 1099-OID
Dividends	1099-DIV
Sale of Stock	1099-B, Broker Statements
Sale of Home	1099-S
Retirement Income	1099-R, RRB-1099 & SSA-1099
Unemployment/Refund	1099-G
Cancellation of Debt	1099-A, 1099-C
Odds & Ends	1099-MISC
1095-A	Affordable Care Act
K-1's	Partnerships and Trusts

ABOUT THESE FORMS

- They vary in size and design
  - Don't be confused
- They contain information other than income
  - Don't overlook anything
- They have been sent to the IRS
  - Don't ignore anything

OTHER FILING ESSENTIALS

- Un-numbered forms or records
  - Interest paid or received from individuals
    - Seller-financed home sale
  - Alimony received
  - Self Employment Income
  - Prizes and Awards

DESIRABLE (TO YOUR BENEFIT) FOR FILING

- Adjustments to Income
  - Alimony paid
  - IRA contributions
  - Student Loan Interest
- Itemized Deductions (Schedule A)
  - Medical expenses
  - Real Estate Taxes
  - VA Taxes paid
  - Mortgage interest (Form 1098)
  - Charitable contributions (Form 1098C for cars)
  - Other allowable expenses
- Virginia Subtractions & Deductions

RETENTION DOCUMENTS

- Why retain?
  - To help with next year's return
  - To reduce next year's taxes e.g. loss carryovers
  - You may want to amend a past return
  - You may be audited!!
  - You need to know the basis for future asset sales
  - Sentimental value!
- How long?
  - "For as long as they are important for federal tax law" (IRS Publication 17)

PERIOD OF LIMITATIONS FROM PUB 17

Table 1-7. **Period of Limitations**

	IF you...	THEN the period is...
1	File a return and (2), (3), and (4) don't apply to you	3 years
2	Don't report income that you should and it is more than 25% of the gross income shown on your return	6 years
3	File a fraudulent return	No limit
4	Don't file a return	No limit
5	File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid
6	File a claim for a loss from worthless securities or bad debt deduction	7 years

ASSET BASIS RECORDS

- BASIS is your investment in an asset
  - Needed to figure your gain or loss when you sell
- Complications
  - Time: May be many years between purchase and sale
  - Splits: Must be accounted for
  - Reinvested dividends: should be included
  - Homes:
    - Records of improvements
    - Postponed pre-1997 gains reduce basis
- KEEP THESE RECORDS FOREVER!

STATUTE OF LIMITATIONS

- 3 YEARS from date of filing - “in general”
- 6 YEARS - if income under-reported by over 25%
- FOREVER - if a return is false or fraudulent
- YOUR CHOICE!
- At least retain a copy of your return and all supporting documents for 3 years

ORGANIZING YOUR RECORDS

- It's a personal thing
- Throw out the shoebox (not the contents)
- Sort
  - Distinguish between tax and other financial documents e.g. bank statements
- Use your computer (if you are comfortable)
  - MS Excel/Mac Numbers spreadsheet or free alternatives
  - Or use file folders

SUGGESTIONS

- A folder for the new tax year
  - Notes from prior year
  - Estimated Tax coupons & payments
  - Prior year carryovers e.g. unused capital losses
  - Infrequent receipts e.g. real estate tax, car tax
  - January stuff - W-2's, 1099's, etc.
- Charitable contributions
  - Envelope for current year receipts
  - Diary entry for charitable mileage
- Medical records
  - Separate doctors, dentists, insurance premiums and co-pays, prescriptions, glasses, mileage

SUGGESTIONS (CONT'D)

- A folder for each Home: (closing documents, cost of improvements, and associated dates)
- Folders for Stocks, Bonds, or Funds:
  - Original purchase date and cost
  - For Stocks:
    - Details of splits or additional stock received
    - Dates and number of shares sold
  - For Mutual Funds:
    - Current year monthly statements
    - At year end keep December statement, destroy the rest
    - Use fund's average cost basis

FINALLY…

- After filing, keep in that year's tax folder
  - A copy of return (all forms)
  - Copies of all Income forms (W-2's, 1099's, etc)
  - All other supporting documents
- After 3 years
  - Move essentials to basement
  - Shred the rest
- Ensure your spouse knows where all your tax documents are