

Tax Planning

How to avoid unpleasant surprises at tax time

I owe \$7600 ???



My qualifications

- 14 years of voluntary tax prep experience in VITA and Tax-Aid
- Training and IRS certification each year
- I am not a CPA
 - CPA not necessary to prepare most tax returns

Tax planning

- How to prepare
- Who's preparing it
- Sources of income
- Sources of deductions
- The dreaded tax audit
- Keeping running track of income

Questions

- Will try to answer
- Tax provisions may change for 2022 returns even as late as Jan 2023

Scope of discussion

- Federal and Ohio taxes only
- Don't know Kentucky or Indiana taxes

How to prepare

- Manually
- By computer

Do you need to file?

- [Publication 4012 \(Rev. 1-2022\) \(irs.gov\)](#)
- You may want to file even if not required
 - Eliminate the possibility of fraud
 - Stimulus payments

How to prepare

- Use a personal tax preparer
- Pay one of the big firms (H & R Block, Liberty Tax, Jackson-Hewitt)
 - Shenanigans such refund anticipation loans
- Do it yourself using a software package (Turbotax most popular) \$100?
- Free tax preparation programs
 - Vita
 - Generally on evenings or weekends
 - <https://www.uwgc.org/get-help/free-tax-prep>
 - AARP Tax aide
 - Generally caters to retired people
 - https://www.aarp.org/money/taxes/aarp_taxaide/locations.html
 - Need to make an appointment early
 - Tax returns can not be too complex
 - When you make the appointment tell them anything unusual
 - <https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers>
 - Out of scope
 - <https://www.irs.gov/pub/irs-pdf/p3676bsp.pdf>

Vita and Taxaid

- Schedule an appointment as soon as you have all your tax forms. Appointments fill up quickly
 - Please inform the scheduler of any unusual sources of income or unusual deductions
- Fill out a six page questionnaire
 - Questionnaire has two types of questions
 - Sources of income and deductions
 - Personal questions designed to provide survey info so we can get our funding
 - Some of the questions are pretty silly. You can answer prefer not to answer
 - Bring all tax documents (envelop says “important tax documentation”)
 - Bring last year’s return if possible
 - <https://www.irs.gov/pub/irs-pdf/f13614c.pdf>
- Both VITA and tax-aid have multiple locations
- One trained volunteer will prepare your taxes. Another will review the work of the first tax preparer
- Confidentiality is guaranteed

Free Tax prep steps

- Trained tax preparer prepares your return in your presence
- Another preparer reviews your return and prints it
- The reviewer goes over your return
- You receive an envelope with a printed copy of your return
- If you owe money to the Federal government or Ohio you will receive an invoice
- Your return will be electronically filed within a day or two
- For refund you will receive a check or direct deposit
- Website to check on refund status
- Call the IRS only as a last resort

Free tax prep

- We file federal and state returns
- For taxing Ohio school districts we file school tax return
- We do not file local tax returns (i.e. Springdale)
- Generally do not file out of Ohio returns

Volunteer for tax-aid or Vita

- Save a lot of people a lot of money
- Can prepare returns for family and friends
- VITA or Tax-aide will train you
- Tax-aide
- <https://www.aarp.org/volunteer/programs/tax-aide/>
- Vita
- <https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers>

Fraudulent tax returns

- If someone has filed a fraudulent tax return using your social, contact the IRS for a pin number
- This pin number must be entered when filing your return.

What tax status should I use

- Married filing jointly is most favorable status
- Married filing separately can't claim
 - Premium tax credits
 - Child and dependent tax credits
 - Tuition deduction
 - Earned income tax credit
- Head of Household (dependents but no spouse)
- Qualifying widow with dependents
 - For the year of death widow files MFJ
 - Two years following death QWD only if widow has dependents
- Single

Sources of Income

- Wage income
 - Generally straightforward
 - Two wage earner problem
 - In the 1960's and 70's the top tax bracket was 70%
 - Today it's 36%
 - Guess which administration lowered the brackets?

Social Security

- Generally straightforward except
 - If 50% of social security + other income + tax-exempt interest is more than \$32,000 for a married couple, \$25,000 for others it becomes taxable. The % depends on how much your income exceeds these parameters.
 - Up to 85% of social security can be taxable
 - If you fall into this category, you can have taxes voluntarily withheld
- Never taxable in Ohio

Medicare

- If you will reach age 65 in the next few months, you need to research Medicare
- Part A (hospitalization) is free
- Parts B, C, and D have costs

MEDICARE 2022 PART B PREMIUMS BY INCOME

If your filing status and yearly income in 2020 was:

File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	Each Month You Pay
\$91,000 or less	\$182,000 or less	\$91,000 or less	\$170.10
Above \$91,000 Up to \$114,000	Above \$182,000 Up to \$228,000	N/A	\$238.10
Above \$114,000 Up to \$142,000	Above \$228,000 Up to \$284,000	N/A	\$340.20
Above \$142,000 Up to \$170,000	Above \$284,000 Up to \$340,000	N/A	\$442.30
Above \$170,000 and less than \$500,000	Above \$340,000 and less than \$750,000	Above \$91,000 and less than \$409,000	\$544.30
\$500,000 or above	\$750,000 and above	\$409,000 and above	\$578.30

How Part B income calculated

- Based on MAGI (Modified Adjusted Gross Income)
- This is the number at the bottom of page 1 which includes all income before any deductions are calculated (including standard deduction)
- How to decrease your MAGI
 - Qualified charitable distribution from an IRA
 - Lowers your taxable income
 - Only through a traditional IRA (Roth IRAs and 401Ks are not eligible)
 - Must be 70 ½ or older
 - Can offset required minimum distribution income
 - Must be done before Required Minimum Distribution is received
 - Distribution made directly to a qualified charity
 - IRA contributions for tax year can be made up to April 15 of the following year if you qualify. These will reduce your taxable income (not Roth)

Interest income

- Generally taxable at federal and state level
- Recently very little but may increase as the fed raises interest rates
- Must be reported
- Some interest is exempt from federal tax subject to Ohio tax and vice-versa

Dividends

- Very favorable treatment
- Qualified and nonqualified dividends
 - To be qualified
 - Issued by a U.S. corporation or qualifying foreign corporation
 - You must have owned it for more than 60 days of the 121-day period before the date you qualify for the dividend
 - Must be a dividend
 - Credit union “dividends” are actually interest payments
 - Tax on qualified dividends
 - 0% up to \$41,675 for singles, \$83,550 for married filing jointly
 - 15% for singles \$41,676 to \$475,750, MFJ \$83,551 to \$517,200
 - 20% above that

Pensions/IRAs/RMDs

- Generally regular and predictable
- You can have taxes withheld
- After age 70 ½ for your own IRA, simple IRA, sep IRA or pension
 - Owner must accept a required minimum distribution, which is taxable
 - Roth IRA's don't have RMDs
 - If you are a non-spouse beneficiary of a decedent's IRA, your RMD is calculated on the beneficiary's age
 - RMD should be initiated by the financial institution which also determines the amount
 - If you don't take an RMD, you can pay an excise tax of up to 50% of what the IRA should have been (draconian)
- If you withdraw before age 59 ½ you may have a 10% tax penalty

Capital Gains

- Generally from the sale of stocks and bonds
- Least predictable source of income
- Short-term capital gain is an asset owned one year or less
- Assets owned more than one year are long-term
- Taxed as ordinary income
- Gains are fully taxable in the year incurred but only \$3,000 in losses can be recognized. The rest can be carried over.
- Since capital gains and losses vary greatly with the market, the government can not absorb the full losses.
- Not easy to have taxes withheld from capital gains

Other sources of capital gains

- Gain on sale of principle residence rarely taxable
 - Must be primary residence
 - Must have owned the home for at least two years
 - Capital gains up to \$250,000 (single filer), \$500,000 (married filing jointly)
- Gain on sale of other property may be taxable

Gambling winnings

- Taxable as ordinary income
- Losses are only deductible to the extent of winnings

Itemized or standard deduction

- Since the 2017 tax law doubled the standard deductions, very few taxpayers itemize.

Deductions

- Charitable
 - Since the standard deduction has been raised to at least \$12,950 for a single or MFS taxpayer and \$25,900 for a married couple filing jointly few qualify for itemized deductions (\$1,400 additional for over 65 or blind)
 - The \$300 charitable deduction for a single taxpayer and \$600 for a married filing jointly for non-itemizers has been eliminated for 2022
- Medical expenses over 7.5% of income
 - Very hard to qualify at federal level since the amount over 7.5% must beat the standard deduction
 - For Ohio they just have to be over 7.5%

Deductions

- Up to \$10,000 in taxes paid can be deducted from federal income
 - Real estate taxes
 - Income taxes or sales taxes
 - Sales tax paid on a major item such as a car purchase
- Tuition paid
 - American Opportunity credit only for four years college (maximum \$2500)
 - Lifetime Learning credit for courses that enhance career opportunities
- Interest paid on a loan for a primary residence

Credits

- Earned Income tax credit
- Foreign income tax paid credit
- Credit for child care expenses
- Refundable credit
 - This is actually a subsidy as it can refund more than taxes paid
 - Seniors rarely qualify as most of these involve dependents

Deduction or credit?

- A tax credit reduces the amount of tax you owe
- A tax deduction reduces the income upon which you are taxed
- Therefore, a tax credit is more favorable if you can take it

Ohio tax

- Retirement income credit
- Social Security isn't taxed
- Business income is often deducted
- Uniformed services retirement income isn't taxed
- Few charitable deductions are recognized

Estimated Payments

- You may need to pay estimated taxes to avoid penalties at filing time
- Four quarterly payments
 - April 15
 - June 15
 - September 15
 - January 15
- Your financial statements probably won't be received in time to calculate the last estimated payment.
- Underpayment penalty may be incurred if you owe over \$1000
- Exceptions to penalty if you paid in what you owed last year or 90% of what you owed this year

Estimated payments –how to pay

- By snail mail postmarked on or before the days listed in last slide
- Electronic payment from bank account
 - Federal
 - <https://www.irs.gov/payments>
 - <https://directpay.irs.gov/directpay/payment?execution=e1s1>
 - Ohio
 - <https://tax.ohio.gov/individual>
 - <https://tax.ohio.gov/individual/pay-online>
- Annual financials statements generally don't come out until after your last estimated taxes deadline of January 15
- Therefore you need to watch your monthly statements

Extension of Filing Deadline

- You can apply for an extension up to October 15
- If you wind up owing money, you will have to pay interest
- Any refund would be delayed

If I get a refund

- Direct deposit to your bank account is by far the fastest way
- You can ask for a check but it will take longer

What if you owe the IRS?

- Do not let them debit your bank account
- If you can, mail a check for full amount on April 15
- If you can't pay the full amount due on April 15 you can apply for a payment plan. It will cost.
- <https://www.irs.gov/payments/online-payment-agreement-application>


Tax Audit

- There is less and less likelihood of an audit
- Initial contact by the IRS will be by letter sent through snail mail
- If someone calls you, texts you, or emails you claiming to be the IRS, it is probably a scam.
- They will set up an initial appointment for you and tell you what to bring.
- If you can't make that appointment you need to call and change it.
- Why you might want to be courteous to your auditor

**Internal Revenue Service
Small Business and Self-Employed**

Department of
550 Main St Room 7501
Cincinnati OH 45202

Date: November 20, 2013
Taxpayer Identification Number:



Tax Year:
2011

Form Number:
1040

Person to Contact:
Joseph Jackson

Employee Identification Number:
1000203141

Contact Telephone Number:
513-263-3982

Fax Number:
513-263-4128

DAVID A ROBERTSON
881 YARGER DR
CINCINNATI OH 45230-3540

Dear DAVID A ROBERTSON:

We have selected your federal income tax return for the year shown above for examination. We examine tax returns to verify the correctness of income, deductions, exemptions, and credits.

What You Need To Do

I have scheduled an appointment for you as shown below. If you are unable to keep this appointment, please call me at the contact number above within 10 days.

Appointment Information

Tax Year: 2011

Date: 01/20/2013

Place: 550 Main St Room 7501
Cincinnati OH 45202

Day: Monday

Time: 8:15

AM

Room Number: 7501

Issues To Be Reviewed During The Examination

Your examination will primarily be focused on the following issues:

1. Other Expenses Subject to 2% AGI Limitation
2. Cash Contributions
3. Other Taxes

What To Bring With You To The Examination

Attached to this letter is Form 4564, *Information Document Request*, that lists the items on your return we will examine and the supporting items you need to provide. Please bring copies of your 2010 and 2012 individual income tax returns. For additional information see the enclosed Publication 1, *Your Rights as a Taxpayer*, and Notice 609, *Privacy Act Notice*.

Why The Information Document Request Is Important

It is important that you read and fully understand the attached Information Document Request. It lists the items you should bring with you to the appointment. To ensure an efficient examination and to save you time, please organize the requested items according to the issues identified above in this letter. If you have any questions or need additional guidance, please feel free to contact me.

What To Expect At The Examination

Generally an examination is scheduled to last approximately 3 hours. During the examination, I will review the information you provide. My goal is to complete your examination at the initial meeting. However, depending on the results of the initial meeting and the supporting items you provide, I may ask you to provide additional information or schedule a follow-up meeting. When the examination is completed, you may owe additional tax, be due a refund, or there may be no change to your return.

A video presentation, "Your Guide to an IRS Audit", is available at <http://www.irsvideos.gov/audit>. The video explains the examination process and will assist you in preparing for your audit.

Who May Come To The Examination

If you filed a joint return, you and/or your spouse may attend. You may also have someone represent you at the examination. If you will not be attending with your representative, you must provide a completed Form 2848, *Power of Attorney and Declaration of Representative*, or Form 8821, *Tax Information Authorization*, before the examination. You can get these forms from our office, from our website, www.irs.gov, or by calling 1-800-829-3676.

What Will Happen If You Do Not Respond

If you do not respond to this letter, we will issue an examination report based on the information available to us, which will result in additional tax due. Therefore, it is to your advantage to keep your appointment and to provide the requested records. If you are uncertain about the records needed or the examination process, please call me.

Sincerely,



Joseph Jackson
Examining Officer
1000203141

Enclosures:
Form 4564
Publication 1
Notice 609

Please bring records to support the following items reported on your tax return for 2011.

- | | | |
|---|---|--|
| <input type="checkbox"/> Automobile Expenses | <input type="checkbox"/> Energy Credit | <input type="checkbox"/> Sale or Exchange of Residence |
| <input type="checkbox"/> Bad Debts | <input type="checkbox"/> Exemptions (Child/Children, Other) | <input checked="" type="checkbox"/> Taxes |
| <input type="checkbox"/> Capital Gains and Losses | <input type="checkbox"/> Filing Status | <input type="checkbox"/> Uniform, Equipment, and Tools |
| <input type="checkbox"/> Casualty Losses | <input type="checkbox"/> Income | <input type="checkbox"/> |
| <input checked="" type="checkbox"/> Contributions | <input type="checkbox"/> Interest Expenses | <input type="checkbox"/> |
| <input type="checkbox"/> Credit for Child and Dependent Care Expenses | <input type="checkbox"/> Medical and Dental Expenses | <input type="checkbox"/> |
| <input type="checkbox"/> Education Expenses | <input checked="" type="checkbox"/> Miscellaneous Expenses | <input type="checkbox"/> |
| <input type="checkbox"/> Employee Business Expenses | <input type="checkbox"/> Moving Expenses | <input type="checkbox"/> |
| | <input type="checkbox"/> Rental Income and Expenses | <input type="checkbox"/> |

Schedule C

- Books and records about your income, expenses, and deductions
- Workpapers used in preparing your return
- Savings account passbooks, brokerage statements, and other information related to foreign and domestic investments
- Bank statements, canceled checks, and duplicate deposit slips covering the period from _____ to _____
- Information on loans, repayments, and other nontaxable sources of income

- | | | |
|---|--|---|
| <input type="checkbox"/> All Business Expenses | <input type="checkbox"/> Gross Receipts | <input type="checkbox"/> Salaries and Wages |
| <input type="checkbox"/> Bad Debts | <input type="checkbox"/> Insurance | <input type="checkbox"/> Supplies |
| <input type="checkbox"/> Car and Truck Expenses | <input type="checkbox"/> Interest | <input type="checkbox"/> Taxes |
| <input type="checkbox"/> Commissions | <input type="checkbox"/> Legal and Professional Services | <input type="checkbox"/> Travel and Entertainment |
| <input type="checkbox"/> Cost of Goods Sold | <input type="checkbox"/> Rent | <input type="checkbox"/> |
| <input type="checkbox"/> Depreciation | <input type="checkbox"/> Repairs | <input type="checkbox"/> |

Schedule F

- Books and records about your income, expenses, and deductions
- Workpapers used in preparing your return
- Savings account passbooks, brokerage statements, and other information related to foreign and domestic investments
- Bank statements, canceled checks, and duplicate deposit slips covering the period from _____ to _____
- Information on loans, repayments, and other nontaxable sources of income

- | | | |
|---|--|--|
| <input type="checkbox"/> All Farm Expenses | <input type="checkbox"/> Insurance | <input type="checkbox"/> Repairs and Maintenance |
| <input type="checkbox"/> Depreciation | <input type="checkbox"/> Inventories | <input type="checkbox"/> Supplies Purchases |
| <input type="checkbox"/> Feed Purchases | <input type="checkbox"/> Labor Hired | <input type="checkbox"/> Taxes |
| <input type="checkbox"/> Fertilizers and Lime | <input type="checkbox"/> Machine Hire | <input type="checkbox"/> |
| <input type="checkbox"/> Gross Receipts | <input type="checkbox"/> Other Farm Income | <input type="checkbox"/> |

Internal Revenue Service
Small Business and Self-Employed

40 Main St
Room 7501
Cincinnati OH 45202

Department of the Treasury

Taxpayer Identification Number:

Tax Year(s):

201112

Form Number:

1040

Person to Contact:

Veda Simmons

Employee Identification Number:

1000098457

Contact Telephone Number:

513-263-3870

Date:

3/29/14

DAVID A ROBERTSON
881 YARGER DR
CINCINNATI OH 45230-3540

Dear DAVID A ROBERTSON:


We've completed the review of the examination report we previously provided you for the year(s) shown above. Since the changes we made did not affect the tax you reported on your return, we are accepting your return with the changes noted in the report.

This is the final letter we'll send you regarding your examination unless we make a change to a partnership S corporation, trust, or estate tax return in which you have an interest.

You cannot protest any issues shown in the report at this time. You can contest them only when they change the amount of your income tax. If we propose additional tax for another tax year due to a change reflected in this report, you can contest the issue at that time.

If you have any questions, please call or write us at the telephone number or address shown above. If you write, please include your telephone number, the best time for us to call in case we need to contact you, and a copy of this letter.

Sincerely,


Brenda Dial
Central Area Director, Exam

Tips for Tax audit

- Preliminary contact will be by U.S. Mail
- Be courteous to your auditor he could be helpful and could forgive some money that you owe
- Be patient: this process took a little over 2 months from initial meeting to final resolution
- Be sure to keep all tax records in case you're audited

How long to keep records

- Generally 3 years from the time you file your return
- 7 years if you file a claim for loss from worthless securities or bad debt reduction
- Keep tax records in a secure place
- Shred documents when no longer needed

You can view your tax records

- <https://www.irs.gov/individuals/get-transcript>

Tax Planning

- W-2 income easy to project
- Investment income much more difficult
- To avoid surprises on April 15th, Check your financial statements from your financial institution each month

Tax planning worksheet

Income source	Jan	Feb	March	April	Total	Y-1 total
Wage Income							
Social security							
IRA's Pensions							
Interest							
Dividends							
Capital gains							
Deduction charitable							

Monthly financial statements

- Available online for many taxpayers
- Should be mailed if not available online