When preparing return, take time, avoid errors

Filing a Form 1040, 1040A or even the 11-line Form 1040EZ can be an ordeal if prepared in haste at the last minute.

Through the years IRS has seen a trend in filing practices. Some taxpayers file as soon as they receive their tax return packages and Forms W-2 and interest information notices. Others prefer to wait until the last minute when running shoes are a necessity to ensure timely filing before midnight on April 15th.

However, those who wait until the last minute might find that preparing their returns earlier—even if only a week or a few days earlier—could make a big difference. Preparing the return over a two or three week period will lessen the chances for mistakes as taxpayers will be more relaxed and take more time in completing the form and appropriate supporting schedules. Taking time in preparing an income tax return will reduce the possibility of making errors, and can help taxpayers discover credits or deductions for which they qualify and might have otherwise missed.

Of course, many file close to the filing deadline because they must wait for certain necessary forms like Form W-2, *Wage and Tax Statement*, or Form 1099-INT, *Statement for Recipients of Interest Income*.

The Internal Revenue Service advises these taxpayers, if they do not receive their statements by January 31, to contact the employer or payer and request that the form be issued.

Taxpayers who still have not received their Forms W-2 by February 15 should call the IRS toll-free telephone number for their area. When contacting the IRS, taxpayers will be asked to provide the employer's name, address and employer identification number. Having the necessary information available on the first contact, IRS adds, will prevent the need for taxpayers to call again.

Those waiting for Forms 1099-INT should note that they should not attach this form to their completed returns. All that is required is the payment information from the forms; so if the taxpayer has kept accurate records or can get the information from the issuing company, he or she can file without having received the form.

The important thing to remember about filing a federal income tax return is to file by April 15 and ensure that the correct postage is affixed to the envelope. Thicker returns, IRS advises, usually containing over four items (i.e. Form 1040 and three attachments), will require extra postage. Returns which are sent back to taxpayers for additional postage will not be considered timely filed tax returns even if they were originally mailed on April 15th.

New Law Requires Reporting of Cash Received

Any person who, in the course of a trade or business, receives more than $10,000 in cash or foreign currency in one transaction, or in two or more related transactions, must report the transaction to the Internal Revenue Service.

This provision, part of the Tax Reform Act of 1984, applies to every business person, whether a lawyer, farmer, broker, jeweler, car dealer or yacht broker, who receives payments made with more than $10,000 in currency.

The transaction is reported on Form 8300, *Report of Cash Payments Over $10,000 Received in a Trade or Business*, which must be filed with the IRS by the 15th day after the date of the transaction. A statement must also be provided to the person making the payment by January 31st of the next year.

To Get a Tax Refund You Must File a Return!

Many low-income taxpayers such as students, retirees, and part-time employees are entitled to receive a full refund of the federal income taxes withheld during the year, but they must file a return to get it, the Internal Revenue Service says.

Taxpayers should check the Form W-2, *Wage and Tax Statement*, to see if any federal income tax was withheld. If any was withheld and there is no tax liability, filing a return is the only way to recover the money that was withheld.

If there is again no tax liability expected in 1987 and a taxpayer's income will be below the amount required to file a return, a taxpayer can avoid having to file a tax return to recover the tax withheld by giving the employer a new Form W-4, *Employee's Withholding Allowance Certificate*, claiming exemption from withholding. The exemption from withholding can be claimed only if there was no income tax liability in 1986 and no income tax liability is expected in 1987. However, if you are eligible for the Earned Income Credit for 1986, you must still file a tax return to claim the credit.

Estimated Tax: Farmers Have Two Payment Options

Individuals who earned at least two-thirds of their 1985 or 1986 gross income from farming may either:

- Make one estimated tax payment by January 15, 1987 and file their 1986 return and pay the balance due by April 15, 1987, or
- File their 1986 return and pay the tax on or before March 2, 1987.

The IRS has two publications which discuss these rules: Publication 225, *Farmer's Tax Guide*, and Publication 505, *Tax Withholding and Estimated Tax*. They may be obtained by calling or writing the IRS.

Double-Check Return—Avoid Processing Delays

To those expecting a tax refund this year, the Internal Revenue Service says a quick check for accuracy can help avoid mistakes which might slow tax return processing. Carefully prepared, easy-to-read returns can be processed faster, the IRS advises. Once the return is completed, the IRS suggests that taxpayers consult the following check list:

- Have you attached all your Forms W-2, *Wage and Tax Statements?*
- Have you attached all the supporting schedules to your Form 1040?
- Is your name and social security number on each schedule?
- Is your arithmetic correct?
- Are all of your entries on the proper lines?
- If you rounded your numbers, did you round consistently?
- Is your handwriting legible?
- When you used the Tax Table, did you follow the line across to the correct column for your filing status?
- Did you sign and date your return? Remember, if it's a joint return, your spouse must sign too.
- Did you use the peel-off label, and is the information on the label correct?
- Have you made necessary corrections right on the peel-off label?
- Have you retained a copy of your return for your records?
- Did you remember to put a stamp on the pre-addressed envelope? If the return has several attachments, additional postage may be required.

If you're eligible

Use form 1040 when itemizing a tax return

While many taxpayers may be eligible to use the simpler Forms 1040A and 1040EZ, there are millions of taxpayers who find it to their advantage to itemize deductions on the Form 1040, the Internal Revenue Service says.

Generally, taxpayers can benefit from itemizing deductions if the taxpayer pays the interest and taxes on the home owned by him/her, if there were unusually large uninsured medical and dental expenses during the year, or had major uninsured casualty losses. What this means is that there will probably be itemized deductions totalling more than the zero bracket amount for the taxpayer's filing status.

Taxpayers who itemize deductions reduce their adjusted gross income by their excess itemized deductions. Excess itemized deductions is the amount by which total itemized deductions exceeds the zero bracket amount. For example, a married couple filing jointly, with itemized deductions of $5,640, would subtract their zero bracket amount of $3,670 from the $5,640 in order to determine their excess itemized deductions of $1,970.

The zero bracket amount is already incorporated into the tax tables and the tax rate schedules.

If a taxpayer itemizes deductions, a Form 1040 must be filed with a completed Schedule A (Form 1040). Schedule A provides space for listing deductible medical and dental expenses, charitable contributions, taxes, interest paid, casualty or theft losses, and miscellaneous items such as union dues.

When a taxpayer itemizes, IRS suggests that a record of the deductible items, including cancelled checks and receipts, should be kept. This will verify expenses should the IRS examine the return. It will also help determine whether the itemized deductions are greater than the appropriate zero bracket amount.

Taxpayers who itemize can take advantage of many deductible expenses. Here is a brief explanation of some types of deductions available:

Charitable Contributions

Generally, taxpayers may deduct contributions given to any qualified organization established and operated exclusively for charitable, religious, educational, scientific, or literary purposes, or for the prevention of cruelty to children or animals; to certain organizations that foster national or international amateur sports competition; to fraternal organizations if the contributions are used for charitable purposes; to veterans' organizations; or to governmental agencies that will use the gifts exclusively for public purposes.

This means that taxpayers may deduct contributions to most religious organizations, community funds, Boy and Girl Scouts, the Red Cross, the American Cancer Society, CARE, Veterans of Foreign Wars, etc. Contributions to civic leagues or chambers of commerce, however, may not be deducted.

If a taxpayer donates property other than money, the deduction must be based on the fair market value of the property, that is, the amount that could reasonably be charged if the property were being sold.

Taxpayers should bear in mind a contribution is only a contribution at the time of its delivery. Pledges are not contributions until a payment is made. Also, if a contribution results in a personal benefit, all or part of it may not be deductible. For example, if you buy a $50 ticket for a church benefit and receive a meal at the function worth $15, you can only claim $35 as a charitable contribution.

Medical Expenses

Taxpayers may deduct only the amount of medical expenses paid during 1986 that is more than five percent of the adjusted gross income. If reimbursed by insurance or otherwise, that amount must be subtracted from the medical expenses.

Payments for the diagnosis, cure, prevention, or treatment of a physical or mental illness are deductible as are payments for treatment affecting any structure or function of the body.

Deductible medical expenses include payments to doctors, dentists, psychiatrists, etc.; payments to hospitals for service, laboratory fees, x-rays, etc.; and, payments for eyeglasses, hearing aids and parts, dentures, crutches, etc.

Expenses not allowed as deductions are trips taken to "get away from it all," even if advised by a doctor, health club dues, maternity clothes, and diaper services.

Expenses for transportation primarily for and essential to medical care—such as getting to and from a doctor's office—qualify as medical expenses. These include taxi, bus, train, or plane fares.

If the taxpayer uses his/her car, the actual out-of-pocket expenses, such as gas and oil, or a standard rate of nine cents for each mile that the car was used for this purpose, can be deducted. Either way, your parking fees and tolls are deductible. Good records of expenses and mileage should be kept.

Deductible medicine and drug items only include drugs that require prescription and insulin. See Publication 502, *Medical and Dental Expenses*, for more information.

Interest

Interest paid during the year on a debt for which a taxpayer is legally responsible is deductible.

This includes such debts as a car loan, a bank loan, an education loan, or a mortgage on a home. However, if in 1986, prepaid interest was allocable to any period after 1986, only the amount of interest allocable to 1986 can be deducted on the 1986 return. There is an exception to this rule if the taxpayer obtains a mortgage loan for the purchase or improvement of his or her principal residence. In these cases, the prepaid interest may be deductible in full in the year paid. For more information, see Publication 545, *Interest Expense*.

If such things as clothing, a radio or TV set, furniture, or household appliances are purchased on an installment plan, budget charge account or credit card that lists a finance charge, the finance charge payment may be treated as interest and deducted in the year paid.

In general, interest deductions must meet the following tests: the interest must result from an actual debtor-creditor relationship; the interest must be based on a valid obligation to pay a sum of money; and, the debt must be one for which the taxpayer is legally liable.

Taxes

The following state or local taxes paid during the year are deductible: state or local income tax (including tax withheld or paid as estimated tax during the year), real estate property tax, personal property tax, general sales tax and contributions to certain state disability benefit funds. The Optional State Sales Tax Tables are a convenient reference for determining the amount you may be able to deduct for sales taxes.

Remember, the sales tax on certain major purchases—a car, motorcycle, motor home, truck, boat, plane, home (including mobile or prefabricated), materials purchased to build a new home—can be deducted in addition to the sales tax table amount. Personal property taxes assessed by some states, especially on cars, may be deductible if they are based only on the value of the personal property and are imposed annually.

Generally, no federal taxes are deductible on your federal income tax return.

Miscellaneous Deductons

These deductions include such items as union dues; the cost of protective clothing, small tools, and supplies used in a job including subscriptions to

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