

Exemptions:

A five-part checklist

Many people provide support for others. However, certain specific tests must be met in order to claim a person as a dependent on your federal income tax return. Answering the following statements should help to determine whether or not a person is your dependent:

- | | Yes | No |
|---|-----|----|
| 1. You furnished more than half the person's total support during the year. | | |
| 2. The person's income is less than \$1,000 unless he or she is your child or stepchild who is under nineteen, or who is a full-time student for at least 5 months of the year. | | |
| 3. The person was a U.S. citizen, resident or national, or a resident of Canada or Mexico for some part of the year. | | |
| 4. The person is your child, stepchild, grandchild, brother, sister, stepbrother, stepniece, non-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law, or if related by blood, your aunt, uncle, niece, or nephew. If the person is not one of the relatives listed, he or she was a member of your household and lived with you for the entire year. | | |
| 5. If married, the person is not filing a joint return with his or her spouse OR they are filing a joint return only to claim a refund of tax withheld and no tax liability exists for either spouse on separate returns, (neither is required to file a return). | | |

If you answered yes for all statements you may claim the person as your dependent.

Note: There are special rules for children of divorced or separated parents and for persons supported by more than one taxpayer. Additional information can be found in the free IRS Publication 507, *Dependents*, and Publication 504, *Tax Information for Divorced or Separated Individuals*. To obtain a copy of these handy references, use the order form found in your tax package or call the IRS.

Good Farm Records Make Good Sense

An accurate and timely system of records is a must for all taxpayers and is essential for efficient farm management. Good records can be useful in applying for credits, in attaining maximum social security coverage, and in saving tax dollars.

The IRS offers a few suggestions on recordkeeping in its booklet, *Develop a System of Recordkeeping*. IRS does not demand any particular method, but the records should substantiate the items on your income tax return: income, deductions, credits, expenses, sale, exchange, or purchase of assets, etc. The method need not be complex but the information should clearly reflect your business, and be filed in an orderly manner, and saved in a safe place.

Retain the records. Records that support an item of income or deduction appearing on a tax return must be kept until the statute of limitations expires. Usually this is 3 years from the date the return was filed or filed

or calling the IRS.

According to the IRS

A special tax credit aids lower-income

The Earned Income Credit is a refundable tax credit available to certain working taxpayers who earned less than \$11,000 in 1986, the Internal Revenue Service said.

The credit will be paid to taxpayers who qualify even if it exceeds tax owed or if the taxpayer owns no taxes. Some taxpayers could receive a credit of as much as \$550, according to the IRS.

To be eligible for the Earned Income Credit, taxpayers must:

- have both an "Adjusted Gross Income" and "Earned Income" (including those of the spouse, unless the taxpayer qualifies as an unmarried head of household) of less than \$11,000; and
- file as married filing jointly, head of household, or qualifying widow/widower; and
- not have excluded any income earned in a foreign country or U.S. possession, or claimed a deduction for a foreign housing amount; and
- live in a home with dependent child the IRS.

For more than one half of the tax year, (all year for a qualifying widower) in the United States. A taxpayer who files as head of household or married must qualify to claim an exemption for the child, even if they've released the exemption deduction to the other parent, in writing, or by a divorce or separation agreement effective prior to 1985.

A qualifying widower's child is a son or daughter or any other child the widower cared for all year as his or her own child. The child must be the widower's dependent.

Taxpayers may elect to receive their credit in one of two ways. If they are eligible, they can receive it as a refund when they file their return, or they may choose to have their employer include advance payments in their paychecks throughout the year, the IRS noted.

Additional information on the Earned Income Credit and advance payments can be found in the free Publication, 596, *Earned Income Credit*, available by calling or writing the IRS.

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Avoid common errors on form 1040

Each year there are areas where large numbers of taxpayers make incorrect entries, slowing the processing of their tax forms, according to the Internal Revenue Service.

These trouble spots fall into two broad categories: problems that recur each year, such as taxpayers selecting the incorrect figure from the tax tables, and problems that stem from changes in the tax laws and forms from one year to the next, such as the addition of a new line to a form or the shift of an existing line to a new position on the form.

Not surprisingly, the largest percentage of errors is made on Form 1040, the so-called long form. To assist filers of this form, IRS has compiled the following list of problem areas to double-check.

To correct errors

You can file form 1040X

Income tax conversations are the norm during this time of year and taxpayers thrive on swapping tax filing stories. Quite often during such conversations, some taxpayers realize that they have made an error on their tax return by forgetting to report income or claim tax credits and deductions to which they are entitled, or they have erroneously claimed deductions of credits to which they were not entitled.

These errors made on previously filed tax returns can be corrected by filing an amended return, Form 1040X, the Internal Revenue Service says. Taxpayers who find it necessary to amend this year's tax return should wait at least 10 weeks after they originally filed to submit Form 1040X. However, if money is owed, they should submit the amended return by April 15.

It is not necessary to file an amended return to correct addition and subtraction errors. These are automatically corrected by computers at IRS service centers when the returns are processed. It is also not necessary to file an amended return if a required schedule was not submitted, IRS adds. If this is the case, IRS will write to request the schedule or attachment.

The amended return which is filed on Form 1040X, Amended U.S. Individual Income Tax Return, can be used to correct any previously filed Form 1040, 1040A, or 1040EZ. Form 1040X must be filed within three years from the date of the original return or within two years from the time the tax was paid, whichever is later, according to the IRS.

Form 1040X and instructions may be obtained by using the handy order form in the tax form package, or by calling or writing IRS.

From IRS

Tax guide available

A free publication, designed to explain how tax laws apply to farming, is available by writing or calling the Internal Revenue Service.

IRS Publication 225, *Farmer's Tax Guide*, is full of information covering such topics as income, farm business expenses, tax credits, deductions of depreciable property and certain farm land, as well as soil and water conservation.

The guide can be a valuable resource for the farmer as well as a handy reference for all year. It contains a sample return with step-by-step directions for filing, not only Schedule F, *Farm Income and Expenses*, but also several other forms and schedules including

Double-check your figures on the worksheet in the tax instruction booklet page 10, and make appropriate entries on lines 20a and b, *Child Care Credit*. Read instructions carefully and double-check your computations on Form 2441, *Credit for Child and Dependent Care Expenses*. Enter the figure on line 41 and attach Form 2441 to your return.

2. *Figure from Tax Table*. Because of the number of pages and figures involved, this item is always high on the list of most common errors in all tax forms. Double-check the figure from the tax table for your filing status and enter on line 38. Check the box for Tax Table.

3. *Unemployment Compensation*. Double-check your figures on the worksheet in the tax instruction booklet page 10, and make appropriate entries on lines 20a and b, *Child Care Credit*. Read instructions carefully and double-check your computations on Form 2441, *Credit for Child and Dependent Care Expenses*. Enter the figure on line 41 and attach Form 2441 to your return.

4. *Balance Due Refund*. This important item usually makes the list of most common errors. If your total tax (line 55) is larger than your total payments made (line 63) enter the difference on line 67, *Amount Due Refund*. Follow the instructions for remaining payment.

5. *Income Computation*. This is an outgrowth of item 4, since the taxpayer who miscalculates their dividend income will have an error on line 23, total income. Double-check these figures.

6. *Earned Income Credit (EIC) Not Claimed*. If you are a working parent and have at least one child living with you, and if your adjusted gross income is less than \$11,000, you probably qualify. See page 16 of the instructions.

7. *EIC Error or Not Qualified*. Make sure you are qualified. Certain expectations must be met, and you must have a dependent child living with you and you must have worked during the year. Follow the instructions carefully and enter on line 38.

8. *Dividends*. You must complete and attach Schedule B if you have over \$500 in dividend income. Enter your total dividends on line 9c; your exclusion (up to \$100 for individual filers, up to \$200 for married filing jointly) on line 9c; and enter the difference (subtract line 9c from 9d) on line 9c.

9. *Income Averaging*. This is one of the most difficult forms for individual filers, because of the number of tax years covered. You should have copies of your returns for the preceding three years in order to accurately complete this form. Read and follow instructions carefully and double-check all figures.

10. *Income Averaging*. Schedule C, *Income Averaging*, is one of the most difficult forms for individual filers, because of the number of tax years covered. You should have copies of your returns for the preceding three years in order to accurately complete this form. Read and follow instructions carefully and double-check all figures.

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The new tax laws do not mean lower taxes for everyone. Because of the complexity of the new tax laws, if you experience or anticipate any major changes to your financial or family situation during 1987, we invite you to call or visit the office listed on the last page of this flyer to discuss the impact of these changes on your tax situation.

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