ROBERT D FLACH'S THE 1040 LETTER

June 2016

Dear Taxpayer:

Summer is almost here. This premiere issue of my free monthly newsletter contains some special "Summer Tax Tips" and advice for recent college graduates who will soon be starting their first full-time job.

I begin, appropriately for a premiere issue, by identifying "My Best Tax Advice".

Your thoughts, comments, and suggestions on the topics discussed in this issue are welcomed. Email me at **rdftaxpro@yahoo.com** with "The 1040 Letter" in the subject line. You can also email me with any tax questions you would like me to address in future issues.

MY BEST TAX ADVICE

As a veteran tax professional and author I have often been asked over the years by friends, family, clients, readers, and cocktail party guests, "What is your best tax advice?"

I thought long and hard and as an answer I have compiled a collection of my best tax advice titled "Won't You Take This Advice I Hand You Like A Brother".

What is on my "top five" list of best tax advice?

• Do not accept tax advice from anyone other than a professional tax preparer. Don't listen to a broker, a banker, an insurance salesman, or your Uncle Charlie! You wouldn't ask your mechanic for a medical opinion, so why would you listen to tax advice from your mailman?

• Don't rely on a tax preparation software package, or an online filing service, to prepare a correct or accurate tax return. Remember – garbage in, garbage out. No software package, or online filing service, is a substitute for knowledge of the Tax Code. And no tax software package, or online filing service, is a substitute for a competent, experienced tax professional.

• The first criteria for evaluating any transaction, strategy, or technique you are considering should always be financial. Taxes are second. Don't let the tax tail wag the financial dog.

• Become more informed on tax matters. Learn what items you can, and cannot, deduct on your tax return, including the special items that are unique to your trade or profession, and the rules governing any special situations that apply to you, and keep up-to-date on federal and state tax law changes.

• Set up a good system for maintaining tax records and receipts. You MUST keep good, contemporaneous records of all your income and deductions in the manner prescribed by the IRS and the Tax Code.

These items are discussed in more detail in the book.

The advice in this compilation is not about specific tax deductions, credits, situations, or "loopholes", and is not specific to 2015, 2016, or any other tax year. It talks about choosing a tax preparer, recordkeeping, record retention, tax planning concepts, and many other timeless tax topics. It also includes the best tax advice of fellow tax bloggers, and a listing of online tax planning and preparation resources.

My fellow tax pros had this to say about my ebook-

Russ Fox, EA of Nevada, author of the tax blog TAXABLE TALK, said –

"The . . . pages of tax advice within the e-book (a pdf document) are full of good, common-sense advice . . . any individual who follows Robert's advice will be far, far better off than those who don't."

And Jamaal Solomon, EA of JS Tax Corporation said –

"I think your book is great. What I like most is that it is in plain English. You are not trying to appear like a 'know-it-all'. It is simple enough for non-tax professionals to understand. However, it is informative enough to help tax preparers learn something new."

The cost of this book, sent as a "pdf" email attachment, is only $7.95.

Companies, organizations, professionals, and publishers who would like to give this report as a "gift" or "benefit" to customers, clients, members, or subscribers can also purchase "reprint rights" for $100.00. If you think you may be interested in this, order and pay for a copy. If you do decide to purchase the reprint rights the $7.95 cost of the report will be deducted from the fee for these rights. For more information on reprint rights of this book email me at **rdftaxpro@yahoo.com** with "Reprint Rights" in the subject line.

To order your copy of "Won't You Take This Advice I Hand You Like A Brother" send a check or money order for $7.95 payable to TAXES AND ACCOUNTING, INC and your email address to –

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For more information on go to **http://robertdflach.blogspot.com/p/wont-you-take-this-advice-i-hand-you.html**.

5 WAYS TO AVOID IRS PROBLEMS

1. First and foremost – file a complete and accurate tax return. The absolute best way to do this is by going to a qualified, competent tax professional. It will not necessarily cost you a lot of money – actually doing so will probably save you more in federal and state taxes than you will pay for the service.

Whatever you do – do not rely on a "box" (i.e. tax software) to prepare a complete and accurate return if you do not know the tax law. Remember – garbage-in garbage-out. And the IRS or the Tax Court will not accept the "Turbo-Tax Defense" if you screw up.

And, in my considered opinion, do not use the services of a "fast food" tax preparation chain.

2. Report all your income. The IRS matches information reported on your tax return to that reported on such information documents as 1099-INT, 1099-DIV, 1099-MISC and the Form K-1 from partnerships, Sub-Chapter S corporations and estates and trusts. Just because you have not received a Form 1099 for income earned or received does not mean that one was not sent to the IRS. Your copy could have been lost in the

mail, or sent to an old or incorrect address. If a 1099 information return should have been filed then assume it was.

Compare information reported on 1099 returns to your own records for accuracy, and do the same thing with your Form W-2s. A while back a client received a 1099-INT with someone else's account, which earned $300+ interest, included in the listing! Had he not carefully checked the form he would have paid close to $100 in unnecessary federal and state income tax.

When you get a Form 1099 you believe is incorrect the first thing you should do is contact the issuer (bank, mutual fund, brokerage firm) and request a corrected return or an explanation. If they will not reissue the form correctly, or do not explain to your satisfaction the difference, claim the gross amount reported on your tax return (Schedule B for interest and dividends, Schedule C for non-employee compensation, or Schedule E for rental income) and deduct any corrections elsewhere on the Schedule so the correct amount is reflected in the "bottom line".

You want to make sure that (a) the gross amount of income reported on your return matches exactly the amounts reported to the IRS on information returns, and that (b) the net income on which you are ultimately taxed is the correct amount.

If you have received a Form 1099-INT reported under your Social Security number for bank interest on a joint account, and you want to claim your half of the interest and have the co-owner report his or her half, enter the name of the bank and the total amount of the interest on your Schedule B and on the next line write "less amount reported by co-owner XXX-XX-XXXX (indicate co-owner's Social Security number)" and deduct out half of the total interest.

If you receive a Form 1099 for interest or dividends from the account of your dependent child that also has your name on it as co-owner or custodian – an investment that truly belongs to the child but is reported under your Social Security number – do the same thing. Enter the total amount of income on your Schedule B, write "less amount reported by XXX-XX-XXXX", and deduct out the full amount of the interest. On the Schedule B of your dependent child you would write the name of the bank or stock and next to it write "reported under XXX-XX-XXXX".

3. Make sure that all the names and Social Security numbers reported on your Form 1040 match exactly the names and Social Security numbers as they appear in the records of the Social Security Administration (i.e. – they are the same as they appear on the individual's Social Security card).

If when your son was born his last name was recorded with SSA as hyphenated (i.e. father = Smith and mother = Jones, so son = John Smith-Jones) and it appears that way on his SS card, but over the years the hyphenation was dropped and he is referred to now as John Smith, make sure to report the name as John Smith-Jones when identifying dependents on the Form 1040 – unless you have officially changed the name with SSA by requesting a new Social Security card. I have had this very problem with a client a few years ago.

Similarly, if in a marriage the wife took her new husband's last name (i.e. Jane Jones now becomes Jane Smith), but never changed her name with the Social Security Administration, make sure to report her name as Jane Jones on the 1040. If a wife chooses to take her husband's last name as her married name the first thing she should do, after returning from the honeymoon and mailing out all the thank you notes, is to officially change her name with SSA by requesting a new Social Security card. This can be done at the SSA website.

4. Do not accept tax advice from anyone other than a qualified, competent professional tax preparer. Don't listen to a broker, a banker, an insurance

salesman, or your Uncle Charlie! You wouldn’t ask your auto mechanic for a medical opinion, so why would you listen to tax advice from your MD?

Over the years clients have come to me wanting to claim the strangest things – telling me “my neighbor” or “a guy I ride in to work with on the train” said it was deductible. And it seems that just about every workplace has a resident self-proclaimed “tax pro”.

If you are given any tax information by a non-tax person make sure to check it out with your own tax professional first before taking any action. You may have to pay your tax pro a few bucks for the consultation – but it is money well spent and far more preferable to losing thousands of dollars by following bad advice.

5. Do not ignore correspondence from the IRS. If you receive a CP-2000 or other notice from the IRS, or a state tax authority, indicating that income was omitted from your tax return, or asking for clarification on an item reported on your return, or for any other reason, give it to your tax professional immediately so that he/she can respond accordingly.

If you prepared your own return review the notice carefully and respond promptly. If you prepared your own return and do not understand the notice, or are not sure what to do, consult a qualified and competent tax professional.

In my 45 years of experience I have found that more than two-thirds of the notices received from the IRS or a state tax agency are incorrect. You should not just automatically assume the notice is correct and pay the amount requested without verification. However, you must respond to all notices you receive – even if only to point out the errors. By ignoring such correspondence the problem will not go away – it will only get worse.

DEAR GRADUATE

Here is some advice for a new graduate starting out in his or her first full-time job.

1. Claim Single-1, or Single-0, on your Form W-4 for federal and state withholding. Do NOT claim more than 1 exemption.

2. Participate in your employer’s 401(k) or 403(b) plan. If cash-flow permits, contribute the maximum, which for 2016 is $18,000. If you cannot contribute the maximum try to contribute at least enough to qualify for the maximum amount of any employer matching contribution. If your employer offers a ROTH 401(k) or 403(b) option choose this option. As an alternative, if you are contributing the maximum put 50% in a “traditional” account and 50% in a ROTH account.

3. If you contribute toward the cost of employer-paid group health insurance premiums via payroll deduction, and you are offered an option, elect to have your contributions be treated as “pre-tax”.

4. Participate in your employer’s medical expense Flexible Spending Account (FSA). Be conservative and start with $1,000. You can increase your contribution in subsequent years once you get a handle on your annual out-of-pocket medical expenses.

5. If you have any cash from graduation gifts left over open a ROTH IRA account and use this money to fund your 2016 contribution. The maximum you can contribute to an IRA, “traditional” and ROTH combined, for 2016 is $5,500.

6. Take an empty coffee can, or other form of “piggy bank”, and put it in your bedroom. Each week put $10, $20, or $50 in this “bank” (if you choose $20, but $20 in each week). On January 2nd of 2017 take the money that has accumulated in this “bank” and contribute it to your ROTH IRA for tax year 2017. Continue this practice for 2017 and subsequent years.

SUMMER TAX TIPS

✓ Are you a working single parent or a two-income married couple with a dependent child under age 13? The cost of sending your dependent child to a summer day camp is eligible for the Credit for Child and Dependent Care Expenses. Day camp expenses qualify even if even if the camp specializes in a particular activity, such as computers or soccer.

Only day camp expenses qualify for the credit – the cost of an overnight camp does not qualify.

You can claim the credit on expenses incurred up to the child’s 13th birthday. If your son turns 13 in November you can still claim the credit on day camp expenses incurred during the summer.

While the amount of the credit depends on your income, a Child Care Credit is available to all taxpayers who qualify, regardless of income. There is **no** AGI phase-out. However, married couples who live together must file a joint return in order to claim the credit.

If you are a participant in an employer-sponsored Dependent Care Flexible Spending Account (FSA) the cost of summer day camp for your child under age 13 should be an eligible expense. Generally having qualified child care expenses paid through an FSA provides a “more better” overall tax benefit than claiming the Child and Dependent Care Credit.

Be sure to get the federal Employer Identification Number of the Day Camp if it is a “for-profit” business. You must report this number on IRS Form 2441 to claim the credit- the IRS will disallow the credit if you do not include an ID number. If the care day camp is, or is offered by, a tax-exempt organization, such as a church or school, you just need to enter “Tax-Exempt” in the space where the tax form calls for the number.

✓ Do you have a teen-age dependent that will soon be looking for a summer job?

Sometimes, unless you prepare your child’s tax return yourself, the cost of preparing a short form for a dependent child with an a summer job, solely for the purpose of getting a refund of the federal and state income tax withheld, is more than the amount of the refund.

Before starting a job your son or daughter will be given a **Form W-4** to fill out. Line 7 of the W-4 allows an employee to claim exemption from federal and state income tax withholding, if he/she had no income tax liability for 2015 and does not anticipate earning enough to pay income tax for 2016, by writing the word “EXEMPT” in the box indicated.

Writing “EXEMPT” on the form means that the employer will withhold only FICA (Social Security and Medicare) and any required state unemployment and/or disability taxes from the student’s wages, but **not** income taxes.

For 2016 the federal standard deduction for a dependent with a W-2 is the greater of $1,050 or the sum of $350 and the dependent's earned income, not to exceed $6,300 (plus $1,550 if age 65 or blind). The state amount varies, and may be more of less than $6,300.

If you expect that your son or daughter will not earn more than $6,300 during 2016, including up to $350 in interest, dividends and capital gains, have him/her claim “EXEMPT” on his/her Form W-4. This way he/she will not have to file a federal or state income tax return simply to get a refund of the income tax withheld.

Of course, on the other hand, and if you will be preparing your child’s simple tax returns yourself, you can use unnecessary federal and state income tax withholding as a form of “forced savings”, so he or she does not urinate away all the summer earnings.

✓ If your son or daughter has a summer job you should consider opening up a Roth IRA account for him or her.

To qualify for an IRA your child must have “earned income” — wages or “net earnings from self-employment.” Money you give your child for doing chores around the house doesn’t count, but earnings from babysitting or mowing lawns may qualify.

You can contribute 100% of your child’s earnings to the account, up to a maximum of $5,500. If your son earns $2,400 for the summer you can contribute $2,400 to a Roth IRA for him. If he earns $6,500 you can contribute $5,500.

There is nothing in the Tax Code that says that the money deposited in an IRA for your son or daughter has to come from the child’s funds.

There is no tax deduction for contributing to a Roth IRA, but most teenagers don’t need the deduction. Qualified distributions from a Roth will be exempt from federal, and probably state, income tax (assuming the idiots in Congress don’t change the law in the future).

You can use a Roth IRA to encourage your children to work to save. If your son earns $5,000 in a summer job open a Roth IRA for him. Or, if your daughter agrees to put $2,500 of her salary from a summer job in a Roth, match it and put in another $2,500.

If you put the maximum into a Roth each year for your 16-year-old from 2016 through 2021, when he/she will turn 21, and no other contributions are ever made, the account could grow to a truly tidy sum (in 6 figures) by the time the child turns 65.

Another suggestion – give your college graduate child or relative the gift of a ROTH IRA. Instead of giving cash to a graduate, deposit the cash to a ROTH IRA for the graduate. While they might not appreciate this gift so much now, they will be thanking you when they retire with a ton of accumulated tax-free savings.

One caveat - there exists a potential problem with opening a Roth account for a child. Once the child reaches the “age of majority,” usually 18, he orshe will have full access to all the funds and can “take the money and run.”

THE NEW SCHEDULE C NOTEBOOK

My book of advice, information and resources for Schedule C filers is a great resource for someone thinking about starting a sideline business as well as the veteran small businessperson.

I discuss –

* MY BEST TAX ADVICE
* THE ONE PERSON LLC
* THE SELF-EMPLOYMENT TAX
* THE HEALTH INSURANCE DEDUCTION
* HOW LONG SHOULD I KEEP MY TAX RETURNS?
* USING YOUR CAR FOR BUSINES
* HOW TO ENJOY A TAX DEDUCTIBLE VACATION
* PUTTING YOUR KIDS ON THE PAYROLL
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* REPORTING REIMBURSED EXPENSES
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It also includes specialized Forms, Schedules and Worksheets for the Self-employed.

This book will be sent as a pdf email attachment.

Send your email address and a check or money order for $7.95 payable to TAXES AND ACCOUNTING, INC to –

SCHEDULE C NOTEBOOK
TAXES AND ACCOUNTING, INC
POST OFFICE BOX A
HAWLEY, PA 18428

THE LAST WORD - KEEP IN TOUCH WITH YOUR TAX PROFESSIONAL

Most taxpayers visit their tax professional only during the tax filing season – after the year has ended – to prepare their returns. But you should consult with your preparer during the year - before year-end - if any of these events occur -

- you get married, divorced, or become widowed
- you have a child
- you change jobs
- your spouse starts working
- you have a substantial increase in income
- you have a substantial gain from the sale of investments
- you buy or sell a home or rental real estate
- you start, acquire, or sell a business
- you retire
- you make an unplanned withdrawal from an IRA or pension plan
- you receive an inheritance
- you receive correspondence from the IRS or a state tax agency

You should actually contact your tax pro BEFORE many of these events are finalized.

Send your thoughts and comments, suggestions, and questions to
rdftaxpro@yahoo.com

ABOUT THE AUTHOR – ROBERT D FLACH

Robert D Flach, a recent transplant from Jersey City NJ to rural Northeast PA, has been preparing 1040s for individuals in all walks of life since 1972. He is "winding down" his tax practice and no longer accepts new clients.

In 45 years of preparing individual income tax returns he has never used tax preparation software. One of the last of the dinosaurs, he prepares close to 300 sets of returns each year manually.

Robert learned how to prepare 1040s by preparing 1040s.

"On my first day at work for my uncle's tax preparer, having never prepared a tax return before, my boss led me to a desk. He gave me a copy of a client's prior year 1040 and a briefcase with the current year's 'stuff' and told me to 'jump in and swim!'"

*Robert has been writing the popular tax blog THE WANDERING TAX PRO (**http://wanderingtaxpro.blogspot.com**) since the summer of 2001. He is the creator and author of the websites FIND A TAX PROFESSIONAL (**http://www.findataxprofessional.com**) and THE TAX PROFESSIONAL (**http://thetaxprofessional.webs.com**), and is the founder of TAX PROFESSIONALS FOR TAX REFORM (**http://www.taxprosfortaxreform.com**).*

He has been a member of the National Association of Tax Professionals for over 30 years, and often write for the Association's TAXPRO JOURNAL as well as the newsletter of the New Jersey state chapter. He has created and compiled several packages of forms, schedules and worksheets and special reports and guides on tax planning and preparation for the average taxpayer.

*Robert is available to write articles and columns for websites and portals and print or email newsletters, on general tax topics, or specifically for your individual audience. You can find samples of his writings at **http://robertdflach.blogspot.com***

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