Organizational Tools: What You Need to Prepare to Do Your Income Taxes

Transcript of Tax Seminar with Sandra Karas – Part 1 of 4

Hey, Equity sisters and brothers. This is Sandra Karas. I'm your Secretary/Treasurer. And today I'm going to try and go through some segments on income tax information so that you can have the information that I've been presenting all over the country in various cities. Maybe you were able to get to one, or maybe the one you tried to get to was full. But that's why we're putting this on the Member Portal, so all the information can be made available to everyone.

The goal here is to present several segments. Well, just a few, actually. The first one is Organizational Tools: What You Need to Prepare to do Your Income Taxes. The next segment is going to be on what's tax deductible and what do you need to save in case you're audited. The third segment is going to be on travel out of town and automobile expenses. And the last one is going to be on 2018. What can we expect?

So let's get started with organizational tools. If you go into the Member Portal and you look at your VITA worksheets, you're going to see that there are several there. Well, this is one I'd like to call your attention to. It's what I call the organizational worksheet. It's got income on one side, deductions and expenses on the other. And this is what we use at the Volunteer Income Tax site here in New York City.

Now you can use these worksheets anywhere in the country with any accountant. If they help you organize, they'll probably help your accountant and you might both like using them.

So let's start with income. Well, what do you need when you're getting ready to do your taxes? You need to gather all of your income statements. And most of them come to you in the mail. Some of them you can get online.

The first one that we have listed here is W-2. W stands for wages, and that means those are all those documents you get early in January or February from the people you were working for last year as an employee. That's important to understand because wages are an employee reporting. So W-2s. We ask you to bring everything with you.

What happens if you don't get all of your W-2s? Well did, you move last year? Did you give your employers your new address? Are they out of business? We've seen that a lot. So save your pay stubs as the year goes on, and look through them when you get to the end of the year. If you've got seven pay stubs from employers and you've only gotten five W-2s, well, you know that a couple are missing. So give them a call or go online and see if they can't send you your W-2s so that you're ready for tax time.

The next segment we have here is 1099 forms, and there are a lot of them. The government sorts a lot of income reporting statements into 1099s. The first one we have listed here is INT. That stands for interest. They're very clever there in the government. If you have savings accounts, checking accounts, bonds, securities that earn interest for you, you're supposed to get a statement called a 1099-INT at the end of the year. And if you don't get it, again, you should contact the payor and make sure that one is coming.

However, if your interest for the year was less than $10, they don't have to send you one. So we recommend-- and we write it right down here-- bring the year end statement because it'll show how much interest you've had last year, even though you know you're not going to get a 1099.

The next item on the list is 1099-DIV. Stands for dividends. If you invest in the market, you have mutual funds, bonds, and any other kinds of securities, you probably have earned some dividends. And again, you want to make sure that you get those 1099-DIVs in. And if it's less than $10, again, they don't have to send you one. So bring last year's year end statement.

What's next? 1099-G stands for government. Those are the forms you get for unemployment and your state tax refunds. If you win the lottery from a government gambling effort that you put in this year, you're going to get a 1099-G if it's over $599.

Well, if you haven't seen your 1099-G, most of the time your government will have it available online. You just go into your revenue department, your state tax website, and you can find the 1099-G there and find out how much unemployment you've earned last year or how much your state tax refunds were.

What's next? 1099-B stands for broker and barter transactions. If you've got investments and you've traded them during the year, you're going to get a 1099-B to show what the gains or the losses were. And what's relatively new, and this is a great thing, is that your financial advisor and the brokerage house that you're working with has to report the cost basis on your reporting statements.

And what that means is that whatever you paid for it, plus whatever was reinvested, is your value in that asset. So if you bought something for $1,000 and you sold it for $1,500, well, you know you've got $500 of gain. Now the form will show that you have that. If you've been jumping from brokerage house to brokerage house, they might not have all that information there. And they'll expect you, your account will expect you, to know what your cost basis is. So we ask you to bring in those 1099-Bs as well.

The next one you all have heard of, and probably most of you have gotten 1099 Misc. M-I-S-C stands for miscellaneous income. It can have rental income on it, royalty income, non-employee compensation, or other kinds of reporting income. Most of you see this when you have non-employee compensation.

What is that? It's freelance income, it's independent contractor income. If a payer paid you more than $599 total for the year, then she or he has to send you the 1099 at the end of the year, and you have to report it on your tax return.

But what happens if you earned less than $600 during the year and you don't get a 1099? Do you still have to report the Income? Yes. It's all taxable income.

So if you've done a one-off for a workshop, if you have some print work that you got $500 to do, if you sing in a church or a synagogue, if you're doing some readings, whatever it is, and you're picking up some fees as you go-- and some people just teach a class here and there in the industry-- they teach singing, dancing, acting, they work with children, whatever it is-- they're getting these fees during the year. And sometimes they don't add up to $600.

So keep track of them. I always recommend that you either keep a copy of the check. You can take a picture of it or photocopy it if you like. Or keep the stub that the check came on if you have one. And that'll remind you at the end of the year how much of that fee income you've earned.

So those are the 1099s that I'm sure many of you are getting. What's next? 1099-R stands for retirement. Retirement income. It can come from an IRA, a 401(k), a 403(b), a pension that your unions have set up for you through the employers and the bargaining process.

So if you're one of those people who has a 1099-R-- and sometimes you even have a 1099-R from something that you're not expecting. A relative dies, had an annuity form, and you are the beneficiary of that annuity. And you say wait a minute, what is this? It's a 1099-R. It shows I got $6,000 last year and all of it was taxable. What does that mean?

And I say, well, you probably inherited an annuity from someone, or some other pension. You could have gotten an IRA from someone who died. So don't be surprised if you get these 1099-Rs if you were the beneficiary of someone's estate.

1099 SSA stands for Social Security Administration. Those of you who are lucky enough to be able to have benefits from the social security system, you know that you get those pink and white forms every year, and you have to report that income on your tax return. Now most of the time it's not taxable. But it can be taxable if your other income reaches a certain amount. So always make sure that your accountant knows that you have those 1099 SSAs.

What's next in the area of income organizing? Well, alimony. I mean, most people don't get alimony anymore. And in 2018, it's not even going to be reportable. But it still is for 2017. So if you're one of those people who receives alimony, keep track of it because you have to report it and pay tax on it on your tax return.

Next, the sale of a home. In 1997 the gains that you make on the sale of your personal home are excludable, if you're single, up to $250,000, and if you're married, up to $500,000. So you're thinking well, why do I have to report this?

Well, very often you get some kind of a 1099 for it, and it says that you have these proceeds from the sale of your home. Make sure that you know what you paid for the house, how much money that you put into it, and tell your accountant, because then you can reduce the amount of any gain that you might have.

And most people don't have to pay tax on the gain on the sale of their house. But some people who are very lucky, who live in a high cost area, might make more than that. So it's really important to keep good records on your house.

K-1 forms. Those are received by people who participate in S corporations, partnerships, Some LLCs, depending on the entity formation. They can participate in a trust. They can be the beneficiary of an estate. And they don't even expect sometimes that these K-1s are going to come. But again, it's like that inherited IRA or that inherited annuity. You might get something and you say, what's this for? And it usually tells you that it's for an estate of a decedent or a trust that's been set up in your name or for your benefit. So you can get these things.

Now those of you who are shareholders in corporations or partners in partnerships, you know that you're going to have K-1s coming, so you have to wait for those before you can complete your current tax return, your personal returns.

Rental income. Are you a landlord? Yes. If you are, you know the drill here. You have to report not only all of your income, but you're allowed to take all of your expenses, including depreciation, on the dwelling that you own and you rent out to people for profit.

Now this does not include Airbnb. Some of you are thinking, oh, I rent my place. Yeah, I do it all the time, as often as I can. Whenever I go out of town. Well, good. But Airbnb is reported differently than standard rental income. If you have Airbnb income, make sure your accountant knows, because that will be treated as a small trade or business, not as the traditional rental income and expenses.

You can still take expenses against Airbnb income, but you should make sure that your accountant knows how much you made. And that's usually reported through Airbnb. They usually send you some kind of a document. We've seen them for many, many years now. But sometimes they don't send anything because the amounts are negligible.

So don't forget to keep track of those, and the expenses that you incur when you let people stay in your place. You're leaving out bran muffins for them, or you're buying new linens and putting out fresh flowers. All those things can go into the cost of running a little Airbnb.

What's next? We've got disability income. Well, what is disability income? Disability income is that box on your W-2 that's called third party sick pay. Most of you probably haven't seen it. But if you've ever had an accident, you went skiing, you broke your leg, or you had an elective surgery-- say you had to, I don't know, have your tonsils out and you've been putting it off and you're going to be out for a while.

Or what if you got sick, you had appendicitis, you had to have your appendix out, and you're out of work. This is money that replaces your income that your employer has paid into through disability insurance.

It probably won't replace your entire week's income, but it helps you to get over the hump while you're recuperating. And it's very important insurance that employers pay into the state and the state pays to you when you're laid up. Now this is not to be confused with workers' comp.

What's workers' comp? Well, worker's comp is an injury or illness you suffer while on the job. Not outside the job, not elective surgery, not skiing with your friends and breaking a leg. But you're injured on the job, you become ill because of the workplace for some reason, and you have to file a claim.

That income is not taxable at all, ever. And we have a lot of people who come in to VITA and say, I got everything but my worker's comp amount. We say, good, you've got everything, then, because worker's comp isn't sending you anything. You don't have to pay tax on that money. However, if it was a disability amount that you got during the year, that insurance, you're going to get a W-2 for that marked third party sick pay. So look for that if you're one of those people.

You also have other income. Prize winnings, the lottery, jury pay. Have you been an election inspector in the past year? Those monies that you earn, most of the time, are less than $600. And yes, you have to report them on your tax return. They're in the other income category. But you won't get a 1099 on them.

So just keep track of them during the year the same way you would any other kind of payments that you get. Either take a picture of the check you get, or keep the check stub and make a note on it what it was, and you can give it to your accountant.

Last but not least, we've listed here scholarships, awards, and honoraria. Most people don't have to pay tax on this because they're going to school and they're using all of the money for their tuition and fees, and it's considered nontaxable.

But if you're one of these people who occasionally gets awards and you're doing something as a professional, as a consultant, as a speaker, then you might have to pay tax on some money that you get from an educational institution or any other nonprofit. So keep track of those and ask your accountant about them if you're one of those people.

The last thing on our checklist here is we ask for bank information. Well, that's important. Your accountant should know what bank you use, the account number, the routing number, because your refunds should be directly deposited. We always recommend that they're directly deposited because it's safer, it's faster, it's more secure. Now that's a personal decision, but it's one that we recommend at VITA, so that's why we have that on the list.

By the way, I didn't tell you. These are all on the portal. You can pull all of these worksheets up by going into actorsequity.org and into the tax section and print out all these worksheets.

So what's on the other side of this? Well, deductions and expenses. So this is your organization for income. This is your organization for deduction and expenses.

And the first thing on the list is medical expenses. For 2017 we still have to report whether or not we had health insurance all year. It's part of the Affordable Care Act, and the mandate is still in place through the end of 2017. For 2018, the mandate to purchase health insurance is no longer in effect. It was part of the overhaul that you've heard about and we'll talk about in another segment.

So we ask for you to indicate whether or not you had health insurance all year. If not, how many months did you have it? Were you on the marketplace or the exchange? And if so, did you get the 1095A?

So what's still deductible for medical expenses? Well, medical expenses are still deductible not only for 2017, but also for 2018. So you should continue to keep good records on those. Now what are the good records for medical expenses? Well, do you pay insurance premiums for your health, your vision, or your dental care? You should keep track of those.

How about any out-of-pocket expenses? Your co-pays, pharmacy, anything that is not covered by your insurance, and anything that your doctor writes for you as a prescription. So if you're going to physical therapy, or you see a psychologist or any kind of practitioner, you should keep track of all of those costs, get receipts, and make sure that you have them all as part of your records.

What is also allowed is transportation to all of your medical visits, including your therapy, visits to doctors. Even stopping at the pharmacy is a deductible expense for transportation, whether you're driving an automobile or you're taking public transit. So you should keep track of those. Especially if you're recuperating from an orthopedic surgery or something and you've got to go to physical therapy for weeks on end, those trips can add up. So keep track of them.

Long term care insurance premiums are also deductible. We don't see this quite as much but for people, usually older people, who might have some concerns about nursing home care, skilled nursing, long term care, or home care, they might have purchased or they might be purchasing some long term care insurance premiums. And they're treated pretty specially on the tax return. So if you have those, make sure that you make a separate line item for those.

And I've talked about the out-of-pocket expenses for medical. Make sure your records are good. And if you exceed a pretty large deductible of your adjusted gross income-- this year it's 10% for people who are under 65, and 7 and 1/2% for people over 65.

And I believe for 2018, unless they change it, it's going to be 7 and 1/2% of your adjusted income is going to be the threshold that you have to exceed to claim medical expenses. But many people do, and it can be a valuable deduction on your tax return, especially if you've had a year where you've needed a surgery, or you had a chronic illness or a lot of treatment. So don't overlook that.

What's next? Charitable contributions, cash, check, or credit card. Make sure you get the receipts. If you're doing all your donating m then you should keep the online receipt. Those are easy to save and they're easy to forget. So as soon as they say thank you for your $50 contribution to the AIDS walk, save it somewhere. Save it to an electronic folder, or if you like, print it out. That's what I do. I print out everything because you never know. And if you have to send it to someone, they're not going to take it in electronic form. So I always have everything printed out.

Charitable contributions that you donate in goods to the Salvation Army, the Rescue Mission, Goodwill, any of those organizations. It could be a museum, any nonprofit that qualifies as a charitable organization will be happy to take your goods and give you a receipt, but they won't value the goods for you. You have to value them yourself.

So I always direct people to online valuations of Salvation Army and Rescue Mission. Their websites have the thrift store values for most of the things we give away. And if you don't find something that you've given away on one of those lists, then you have to kind of figure out what would it sell for at a garage sale, a tag sale, or in a thrift store.

So I would keep the receipt make a list of everything you've donated, put the fair market value on there, and then you're ready for tax time. If the amount that you've donated exceeds $500 in a calendar year, you're going to need all of that detail for your accountant. If it's less than $500, they don't really care about it. Just keep the receipts and keep them to yourself in the event you're audited.

Mortgage interest and real property taxes. How many of you own your home, your apartment, a campsite, something like that you've had for a while or you live in? Well, those are still deductible. They're deductible in full for 2017. For 2018, mortgage interest is limited to the loan value of your property of $750,000. That's the limit on your loan. Most of us aren't going to exceed that. But for those who do, you should talk to your accountant about what the limitations are.

In terms of real estate taxes, next year they're going to be limited, combined with your state and local tax deductions, to a total of $10,000. For 2017 there's no limit on your real estate tax deductions. For 2018, you're going to have to figure out how much of your real estate and your state and local taxes you're combining. And then you're going to be limited, for both of those, to $10,000. Your account can probably explain a little more about that. If you have questions about it, please call us at VITA. 212-921-2548.

Child and dependent care costs. Do you have children that you have to take to a program of some kind? A school, a daycare, a preschool, an after school. Do you have a dependent for whom you have to provide care while you're working? It can be a parent, a child, or relative of any kind.

And if you have those dependent care costs-- it could even be your spouse-- and we've seen all of these things. Don't forget that these costs can provide some valuable credits for you. Get the receipt from the organization at the end of the year as to how much you paid. The organization will also provide you with its name, its employer ID number.

If you're hiring someone in your house, you should have some real good information about household help because in many cases, you'll have to hire that person as an employee. So be aware of that.

And if you're dropping someone off-- your child off at someone's house-- then that person should provide you with the name, the tax ID number, and the address and an invoice so that when you pay it, you'll have the receipt to go along with that. These can be valuable credits, and a lot of people forget about getting them at the end of the year.

Alimony pay. Remember I talked about the people who have to report alimony as income? Well, the people who pay it get to deduct it. What a concept, right? That's going away in 2018, but it still exists for '17. So those of you who either receive or pay alimony, you know who you are, keep your records and don't forget to include everything on your tax returns.

Retirement. Do you participate in your own retirement plan? Do you have a Roth IRA, traditional IRA, a simplified employee pension, a SEP IRA? If you have any of these things-- some of you have small businesses and you have a solo 401(k), even.

So if you have these things, you should not only fund them, but keep track of how much you put in for the prior year because you can get valuable retirement credits. You can get deductions for them. So these are important not to forget. And some people do. They fund them and they forget to tell us about them, so we make them go back and get the information.

Total annual rent. Well, why would we ask you about the annual rent? Because many states-- California, New York, New Jersey, a number of others, Indiana, a few others-- participate with renters credits. And these can be valuable. They can put money back in your pocket if your income is modest or low and you qualify for these credits, and credit for being a renter. You report it on the return and you can get refunds back, or deductions on your taxes.

So keep track of your rent paid, and remember it's your rent, not your roommate's rent. So it's whatever you paid all year, not everybody's rent combined for that apartment or that house that you're sharing.

Moving expenses. If you move for a job or work that you're going to be doing, and the move is more than 50 miles from your current home, all of the moving expenses are tax deductible for 2017 still. For 2018, I'm afraid they're gone. Those moving expenses are just not going to be a tax deduction anymore. And we were hoping for some relief for people who do move and have to move because of their jobs.

But for now, if you have done those, if you've had a move in 2017, then get all the expenses together, including the mileage, and put it on your tax return.

For 2018 you might consider having an employer help you out if you're going to make the move. Not all of us can have that luxury of having somebody who's paying us also pay for our moving expenses. But to the extent that you can, it's a valuable perk of your job.

Business and auto expenses we'll get to in another segment.

Travel expenses we're going to get to in another segment.

Expenses related to investment income. That broker we were talking about. Do you pay a fee every year? You probably do, and those fees are tax deductible. They're not going to be tax deductible for 2018, however, so make the most of it for 2017.

College tuition and student loan interest, the tuition that you pay for undergraduate, graduate school, or continuing education sort of generally. Now in show business we have continuing education all the time, classes, coaching, all kinds of things. But if you were enrolled in some kind of a formal program, then you probably got something called a 1098T form, and you can take some really valuable credits and deductions for your college tuition.

And if you're out of school and you're still paying back those student loans, you can take up to $2,500 as a deduction right off of your income. And by the way, they were going to get rid of it for 2018. They kept it. So that's the good news. We still have a lot of those college costs and the loan interest costs for 2018.

The only one that I know of that we've lost is the tuition and fees deduction. But we still have the undergraduate deduction for college and the graduate deduction for college. So we're hoping that those stay in place, and there shouldn't be any problem for '18.

Did you pay tax to a state last year when you filed your tax returns? Well, if you were on tour or if you had to go out of town to work regionally and you owe $30 bucks to Connecticut or $58 to North Carolina or $130 to California or any other state or jurisdiction, you can deduct that on your tax return this year. So remember all those states that you might have had to file in last year, if you owe any of them any money, that's a tax deduction on this year's return. Don't overlook it.

And the last thing we put on here, on our little checklist, is estimated taxes for people who have a lot of 1099 income. And of course, nobody is withholding any tax on that, as you know. So you do recorded books, you do a lot of print work, you have a regular gig singing in a church or synagogue. And you get a lot of freelance money, a lot of 1099 money, independent contractor.

So you're expected to pay your tax quarterly. And we ask, if you've done that, to list that for us. If you don't know how to do that, talk to a tax expert about it. Call us at VITA or talk to your accountant, and see how you can set that up so that you don't have a big tax bite at the end of the year.

The last thing on this is extensions. Well, we have a lot of people filing extension forms every year because they're just too busy to get their tax returns filed. They're out of town working, they're on tour. You know, life just happens. And the next thing you know, April 15 comes and goes, and they want to send in some money to the federal or their home state government and make sure that by the time they're ready to file their tax returns, their extensions are in place and they're ready to go.

So that's your income. That's your deductions and expenses. Keep good records on all of those and use this checklist.

See you with the next round.