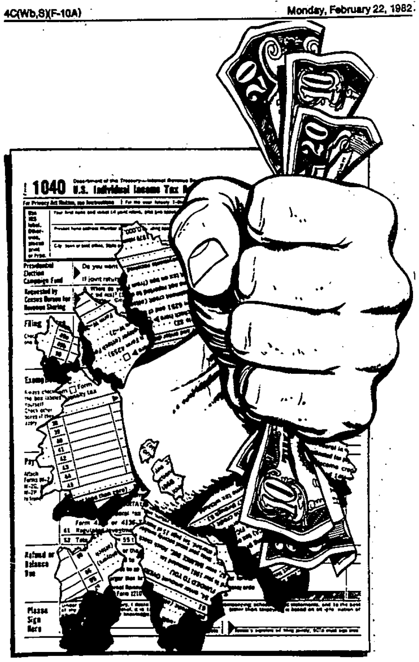

Aids to surviving a taxing situation

While the Internal Revenue Service encourages as many taxpayers as possible to use the simple 1040A tax form, there will be millions of taxpayers who will find it to their advantage to itemize deductions on the 1040 form.

Generally you will benefit from itemizing deductions if you paid interest and taxes on a home you own, had unusually large uninsured medical and dental expenses during the year, made large contributions to qualified charitable organizations or had major uninsured casualty losses. What this means is that you will probably have itemized duductions totalling more than the zero bracket amount appropriate to your filing status.

Taxpayers who itemize deductions reduce their adjusted gross income by their excess itemized deductions. Excess itemized deductions are the amount by which total itemized deductions exceed the zero bracket amount. For example, a married couple filing jointly with itemized deductions of $5,500 would subtract their zero bracket amount of $3,400 from their $5,500 in order to determine their excess itemized deductions of $2,100. Although adjusted goss income is reduced by only the excess itemized deductions, all deductions are allowed. This is because the zero bracket amount is incorporated into the tax tables and the tax rate schedules.

Itemized deductions are nonbusiness deductions. If you itemize you deductions, you must file Form 1040 and fill in Schedule A. 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.

If you itemize, you should keep a record of your deductible items, including cancelled checks and receipts. This will verify your expenses should the Internal Revenue Service examine your return. It will also help you determine whether your itemized deductions are greater than your zero bracket amount.

Taxpayers who itemize can take advantage of many deductible expenses. Here's a brief explanation from the IRS of some tipes of deductions:

CHARITABLE CONTRIBUTIONS: Generally, you may deduct contributions you paid to any qualified organization established and operated exclusively for charitable, religious, educational, scientific or literary purposes or for the prevention of cruelty to animals or children; to fraternal organizations if the contributions or used for charitable purposes; to veterans' organizations; or to governmental agencies that will use the gifts exclusively for public purposes.

If you donate property other than money, you must base your deductions on the fair market value of the property, that is, the amount you could reasonably charge if you were selling the property.

Bear in mind that a contribution is only a contribution at the time of its delivery. Pledges are not contributions until you make a payment. Also, if a contribution results in personal benefit, all or part of it may not be deductible. For example, if you buy a $50 ticket, you can only claim $35 as a charitable contribution.

MEDICAL EXPENSES: You may deduct the medical expenses you paid during the year to the extent that they exceed 3 percent of your adjusted gross income. If you were reimbursed by insurance or otherwise, that amount must be subtracted from your medical expenses.

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

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

Items which are not deductible are things such as a trip taken to "get away from it all," even if advised by a doctor; health club dues, maternity clothes or diaper service.

Expenses for transportation that are essential to medical care — such as getting to and from a doctor's office — may be included in medical expenses. These include taxi, bus, train or plane fares.

If you use your car, you may deduct the actual out-of-pocket expenses, such as gas and oil or nine cents for each mile you use your car for this purpose. You may deduct parking fees and tolls in addition to your actual operating expenses or deducting nine cents a mile. You must keep track of such expenses.

You may also include as part of your medical expenses, subject to the 3 percent limitation, your payments for medicines and drugs that are more than 1 percent of your adjusted gross income. You may include the cost of medicines and drugs whether prescriptions are required to obtain them.

There is only one exception to the 3 percent limitation on medical expenses. You may deduct, without that limitation, one half of what you paid for medical insurance during the year, whichever is less. The rest of the payment for medical insurance may be included with your other medical expenses subject to the 3 percent limitation.

INTEREST: The interest your paid during the year on a debt for which you are legally responsible is deductible.

This includes such debts as a car loan, a bank loan, an educational loan, or a mortgage on your home. However, if in 1981 you prepaid interest allocable to any period after 1981, you can only deduct the amount of interest allocable to 1981 on your 1981 return.

If you buy such things as clothing, a radio or TV set, furniture or household appliances on an installment pln or a budget charge account or credit card that lists a finance charge, you may treat the finance charge payment as interest.

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

TAXES: The following state or local taxes that you paid during the year are tax deductible: income tax (including tax withheld or paid as estimated tax during the year), real property tax, personal property tax, general sales tax and contributions to certain state disability benefit funds.

Remember, the tax on certain major pruchases — a car, motorcycle, motorhome or 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 on the value of the personal property and are imposed annually. The 1981 Optional State Sales Tax Tables are a convenient reference for determining the amount you may be able to deduct for those taxes. Generally, no federral taxes are deductible on your federal income tax return.

MISCELLANEOUS: These deductions include such items as union dues, the cost of safety equipment, tools and supplies used in your job, including professional and trade journals and expenses incurred in seeking new employment in the same trade or business. Job hunting expenses are not deductible if you're seeking employment in a new field of work. Under the category of miscellaneous deductions you can also deduct the rent on your safety deposit box if you keep income-producing items in it, such as stocks and bonds. Taxpayers who hire someone to prepare their tax returns can also deduct the fee paid to the preparer. Also, beginning in 1981, certain adoption expenses may be deductible.

Keep good records

Keeping accurate and complete tax records makes tax return preparation easier.

You should keep the necessary records to prepare income tax returns for as long as their contents may be material in administering any Internal Revenue law.

Records that support an item of income or a deduction should be kept until the statute of limitations for the return expires (generally three years from the date the return was due or filed, or two years from the date the tax was paid, whichever occurs later).

Other records that concern income averaging or property transactions — purchase of a home, for example — should be kept for as long as they are relevant. Copies of tax returns should be kept even after the cancelled checks, receipts and other records are disposed of because they may be helpful in preparing future returns. You should keep them for at least three years to conform to the statute of limitations. If you are considering income averaging, you will need your records for the past four years.

When to income average

Taxpayers whose incomes increased substantially in 1981 may be eligible for a tax break by using the income averaging method of tax computation when filing their federal tax return.

In income averaging, part of an unusually large amount of taxable income can be taxed in lower brackers.

Generally, the taxpayer uses the four years prior to 1981 to compute the tax in averaging income. The first step is finding if the averageable income was more than $3,000. The averageable income is the amount by which the taxpayer's adjusted taxable income for 1981 is more than 30 percent of the total taxable income for the four years preceding 1981.

For detailed information on how to compute income averaging, taxpayers should ask the IRS for free publication 506, "Income Averaging."

Dependency claims

Even though several persons may together contribute over half to an individual's support, only one taxpayer can claim a dependency exemption for that individual.

If no one person in a family contributes more than one-half of the cost of supporting an individual, but together they provide more than half, the group should choose one of its members to claim the exemption. The person claiming the exemption must have contributed more than 10 percent of the total support and must meet all other dependency tests, according to the IRS.

The remaining contributors in the group must complete and sign Form 2120, "Multiple Support Declaration," saying that they will not claim the exemption that year. The forms are filed with the income tax return of the person claiming the tax exemption.

Deductible studies

Expenses for education relevant to your current employment are likely to be deductible.

To qualify, the expenses must meet at least one of two specific guidelines. Taking the course of study must be mandatory for contining your current employment status — for example, a teacher required to take a course to retain a teaching position. If not, the course must be helpful in maintaining or improving skills which are required in your present employment — for instance, a television repairman taking a course to keep up with the latest changes.

But the cost of certain educational experiences are not deductible. Expenses for education that prepares you for a new trade or business — such as a journalist studying law — may not be deducted, even if the education is required or beneficial in your present employment. Similarly, the expense for study to help you meet the minimum educational requirements for your current position is not an allowable deduction — for example, a fulltime engineering student who has a part-time job in a minor engineering capacity.

Education expenses include amounts spent on tuition, books, supplies, laboratory fees and certain travel and transportation costs. Except for reimbursed expenses included in income, travel and transportation, educational expenses are an itemized deduction and should be listed as a miscellaneous deduction. Travel transportation, reimbursed expenses and all outside salesperson's educational expenses are deducted as an adjustment to income.

Who's a dependent?

To claim a person as a dependent on the federal income tax return, specific requirments must be met. The following true/false quiz should help you determine whether a person is your dependent:

1. You furnished more than half the person's financial support during the year.

2. His or her income is less than $1,000 unless the person is your child or stepchild and under 19 or a full-time student.

3. The person was a U.S. citizen, resident or national, or a resident of Canada or Mexico for some part of the year you wish to claim him or her.

4. The person is your child, stepchild, parent, stepparent, grandparent, grandchild, brother, sister, stepbrother, stepsister, in-law, or, if related by blood, your aunt, uncle, neice or nephew. If the person is not one of the listed relatives, he or she was a member of your householdl 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.

IF YOU CHECKED true for all statements, you may claim the person as your dependent.

But there are special rules for children or divorced or separated parents and for persons supported by more than one taxpayer. Additional information can be found in the free IRS Pulbication 501, "Exemptions." To obtain a copy of this reference, contact the IRS office.

Energy tax credits

Taypayers who take certain steps to save energy in their homes can cut their income tax bills by up to $4,300, according to the IRS.

The law provides for a tax credit of up to $300 for energy conservation materials installed in the home with a separate credit of as much as $4,000 for taxpayers who install "renewable" energy source devices such as solar or wind equipment.

The credit for energy conservation items is figured at 15 percent of the fist $2,000 spent on such items as storm or thermal windows and doors, insulation, weatherstripping and caulking. Also qualifying are furnace replacement burners, flue-opening modifications, electrical or mechanical ignition systems to replace gas pilot lights and clock thermostats. Only materials installed in homes which were substantially completed before Aug. 20, 1977, are eligible for the credit for energy conservation costs.

According to the IRS, the "renewable"energy source credit is 40 percent of the first $10,000 invested in qualifying solar, wind or geothermal equipment used to heat, cool or provide hot water or electricity for use in the home.

Both credits are available for items purchased and installed on a taxpayer's principle residence between April 20, 1977, and Dec. 31, 1985. The "renewable energy credit is available for both existing and newly constructed homes. Renters as well as homeowners are eligible for the credit.

Taxpayers need not itemize deductions to claim the residential energy tax credit. But they do have to file Form 1040, attching IRS Form 5695, showing how the credit was computed.

No credit is allowed on any return for any taxable year if the credit is less than $10. Any unused energy credits may be carried over to the extent the credit is more than the taxpayer's tax liability. The period for carryover of unused credits extends through 1987.

Allow 10-week wait

Taxpayers filing their 1981 federal income tax returns and claiming a refund should wait at least 10 weeks to contact the Internal Revenue Service about their refund.

Generally, taxpayers who file returns early in the year may receive refunds in less than 10 weeks unless their return was incorrect in some manner.

Those filing returns after April 1 should wait until after June 15 to contact the IRS about a refund.

Taxpayers who move after filing their federal income tax returns and are expecting a refund should notify the post office serving the old address.

The IRS center where the return was filed should also be notified of the address change. This will help the IRS to forward the refund check to the new address as soon as possible. When advising the IRS of the address change, the taxpayer's Social Security number should be included in the correspondence.

Elderly get tax help

Older Americans are in a unique situation financially. Many are retired and living on fixed incomes. To assist them, the tax laws offer some tax benefits.

Persons over 65 are entitled to an extra exemption of $1,000 for single persons and $2,000 for a married couple, both over 65 who file a joint return.

Do senior citizens have to file at all? Filing a tax return has nothing to do with age. It's income that decides that question.

Single persons over 65 do not have to file a federal income tax return if their income was less than $4,300. The limit for a married couple, filing a joint return, with only one spouse over 65 is $6,400; $7,400 if both spouses are over 65. For tax purposes, persons are considered to b 65 on the day before their 65th birthday. Remember that Social Security benefits are not taxable. The same holds true for Railroad Retirement benefits.

Another benefit is the credit for the ederly, which can in some cases, reduce taxes owed by as much as $375 for single persons and $562.50 for married couples who file a joint return. Although the credit generally applies to persons 65 or older, it is available to those under 65 if they have a taxable penison from a public returement system.

Senior citizens who are thinking about selling their personal residence should consider the once-in-a-lifetime $100,000 or $125,000 exclusion of the gain on the sale of their home. If you sold your home before July 20, 1981, the exclusion limit is $100,000. For homes sold after that date, the exclusion is up to $125,000. An awareness of the tax consequence is essential before selling a personal residence at any age, but doubly so for those age 55 or older to whom this benefit applies.

Taxpayers needing assistance with their returns can turn to Tax Counseling for the Elderly, an IRS program thorugh which origanizational volunteers provide free tax information and assistance to individuals age 60 or over. For information on the program, call the IRS tax informtion number at 237-0800.

Good recordkeeping can save you tax dollars. For help in knowing what records to keep, order IRS Publication 552, "Recordkeeping Requirements and List of Tax Publications."

Free tax tip booklets

The Internal Revenue Service has more than 90 free publications to help explain tax laws, including several in Spanish.

Publications can be ordered by using the order blank provided in your tax package. You should allow at least 10 days for delivery.

Some of the more common free IRS publications include the following:

#17 Your Federal Income Tax
#54 Tax Guide for U.S. Citizens Abroad
#225 Farmer's Tax Guide
#334 Tax Guide for Small Business
#501 Exemptions
#502 Medical and Dental Expenses
#503 Child and Disabled Dependent Care
#504 Tax Information for Divorced or Separated Individuals
#521 Moving Expenses
#522 Disability Payments
#523 Tax Information on Selling Your Home
#524 Credit for the Elderly
#526 Charitable Contributions
#529 Miscellaneious Deductions
#530 Tax Information for Homeowners
#545 Interest Expense
#552 Recordkeeping Requirments and a List of Tax Publications
#554 Tax Benefits for Older Americans
#903 Energy Credits for Individuals
#907 Tax Information for Handicapped and Disabled Individuals

Deductible moves

Many expenses incurred in a job-related move may be deductible on 1981 income tax returns.

Moving expenses which can be deducted include the cost of travel to the new location; moving of household goods and personal effects; pre-move househunting trips; temporary living costs at the new location; and certain expenses related to the disposition of an old residence and acquisition of a new one.

The maximum deduction for these last three items is $3,000. In addition, the distance between a taxpayer's new job and old home must be at least 35 miles farther than the former home was from the former job. A taxpayer who is an employee must work for at least 39 weeks during the 12 months after the move.

Eligible taxpayers can claim the moving expense deduction whether they itemize or not. Expenses are reported on Form 3903, "Moving Expense Adjustment," which should be filed with Form 1040.

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