

Personal Financial Literacy Brown Bag Luncheon:
Is It Tax Time Again...How Can I Get Prepared?
January 14, 2009

Presenter My name is Brittany Suttle. I've been with the Department of Revenue for a little over five years, and I'm currently an administrative officer in the Personal Taxes division. I recently came from the examination side as an auditor. So, I've got good perspectives to bring in here. Coming from the auditor's side, I'm very well aware of common errors that are made during tax preparations.

The first thing I want to discuss with everyone is e-filing. Many state employees will qualify for free or reduced e-filing. If you make \$40,000 or less you may qualify. To find out about the eligibility requirements you would have to go to the IRS' website or North Carolina Department of Revenue's website, and you can find out if you qualify for free or low cost e-filing. The IRS will have that information up on their website Friday – that's what I read. I'm not quite sure when the North Carolina Department of Revenue will have the information up, but Friday the IRS will. According to the IRS' website, about 70% of tax payers will be eligible to free file. That's a pretty large percentage, so you should definitely check into that. Also, on the IRS' website I discovered today that they have a "tax tip" of the day that they are going to be posting daily up until April 15th.

The handout that I gave you has the IRS' website, their telephone numbers, our website, our tax payer's assistance and tax refund inquiry line. You can also check your refund online. If you go to our website there will be a link, and by tax time the refund status link should be very visible, and you can check the status of your refund online. You can also contact us for more information or whatever the situation may be. Here are some facts about North Carolina's e-filing....we're very excited about this. Last year, two out of three tax payers filed electronically. That helps us to be able to process your paper returns and your electronic returns better, and it also helps the taxpayer because it facilitates a faster refund. About 2.5 million tax payers filed electronically last year which was a 14% increase than the year before. We were very excited about that. It's becoming more and more popular; more people are doing it.

Another option for free or low cost filing are VITA centers. You've got information on your handout about that also. VITA centers provide free tax preparation and e-filing services for people low to moderate income. Again,

you can go to the IRS' website, and if you search "VITA" in the top right hand corner you can get more information on that. There's also a tax counseling service for the elderly that provides free help for anyone over age 60. You may not qualify for these programs, but you may know someone who may qualify. So, you can spread the word on that. Again, you can get information on the IRS' website about these programs.

Some of the benefits of e-filing are faster refunds; it's about 4 to 8 weeks faster. If you file electronically, the North Carolina Department of Revenue (NCDOR) gives an estimate of 4 weeks. Many times it's even faster than that, but we do allow up to 4 weeks for processing which is much quicker compared to filing a paper return in April that can take up to 12 weeks. That's a big difference. You can get the money in your bank account, spend it, or start saving it quicker. In North Carolina the only way to do direct deposit is through electronic filing. However, the IRS will allow you to do direct deposit with paper filing. This is such a convenience because you don't have to wait for your check to come in the mail. Also, with e-filing you're going to have improved accuracy because the software does the math for you. Now granted you do still have to put in correct information, but it will at least do the math for you so you can avoid some of those common errors. There are also pop ups to remind you to put in your social security number or other required information. So, you'll definitely have improved accuracy with the software. You also get notification that your return has been received by the IRS or the NCDOR when you file electronically, and this prevents you from wondering if it was received. Also, on the handout there are some tips on preparing to file your taxes. These are common things, but they are good reminders to have and applicable for e-filing or paper filing.

You'll definitely want to plan ahead. Gather your records in advance. Yesterday, when I arrived home from work, and my husband had our 2008 tax folder out, and I said, "Why do you have that out?", and we'd been getting tax documents in the mail. As soon as statements start coming in it's best to start a folder and start putting things in. Even before documents start coming in, if you think you're going to itemize or have charitable contributions, go ahead and start getting those records together because it can take some time. Once you get your W-2s, 1099s, and other documents you'll be ready to file your return. And make sure that you keep copies for yourself. If you file electronically you'll don't need copies because you don't have to submit your documents. But, if you file them through the mail and it gets lost you'll need to have a copy available. In North Carolina when your return comes in an auditor may get your return electronically and he may need to verify your

documents and may call you for something. So keep your documents on hand so you can easily fax or mail something if needed.

Also, it's important to make sure you fill out the right form. The IRS has multiple forms for individuals to file. They have the 1040, 1040A, 1040EZ which are based on the difficulty of your return - whether you have certain credits or deductions. So, make sure you're getting the right form to them. For example, if you take the 1040EZ and you have certain deductions that you're entitled to they may not be on that form, but would be on the full 1040. So, make sure to get the right form to get everything that you are entitled to. North Carolina is a bit more simple. We have the D400 and D400TC for the tax credits. It's one form to fill out for North Carolina. Our instruction booklet for North Carolina is the D401, and you can get that at our website, and it's pretty easy to find it. There're five tabs across the top - green tabs. One says, "Tax form", and if you put your cursor over the first tab it is D401. You can always go to our website to get a previous year form if you've forgotten to file you taxes for a previous year. We keep them as far back as ten years. I believe we have them going back to 1999.

As with anything - don't rush - you have time. It's good to stop and then come back later with fresh eyes to make sure you have done everything correct. Make sure you have all your documents so you don't have to come back later and file an amended return. Filing an amended return could delay your refund up to six months.

Audience How would we know which form needs to be filled out? I normally have an accountant complete my return, but if I wanted to do it myself how would I determine which form to use?

Presenter I would recommend looking at the 1040 and 1040EZ to see if everything you're entitled to is on the form. I'm sure the IRS offers something on their website to guide you on which form you need to fill out. In North Carolina, we're pretty simple. We have the D400, and if you have any tax credits the D400TC. With the 1040 there are schedules attached to them. Say you are going to itemize your deductions and you have to fill out the 1040A, the 1040 will lead you to another form and will instruct you on what you need to fill out in order to calculate the amount.

Some of the common tax credits includes the child tax credit which is \$100 per child under the age of 17, based on adjusted gross income limitations if you're married, and if your adjusted gross income is under \$100,000, head of household is \$80,000, single is \$60,000, and then married filing separately

\$50,000. As long as the adjusted gross income is under that amount and you qualify for the child tax credit on the federal form, you can also take the child tax credit on the North Carolina form. There are also child and dependent care expenses. If you have a child in day care a credit can be taken for those expenses as well. That credit is also based on the federal return. You have to complete the federal return first, and then we take numbers off the federal return to calculate the North Carolina credit. Another common credit is the charitable contribution credit. Many taxpayers do not realize they can take the charitable contribution credit if even they don't itemize on the federal return. I believe that's the only thing that North Carolina allows if you weren't able to itemize on the federal return. So, if you don't have enough deductions to itemize you may still be entitled to a credit. It's not dollar for dollar, but you may still be entitled if you did not have enough to itemize.

Other tax credits are for businesses and individuals who are investors in businesses, partners, and shareholders. The common itemized deductions are state individual income tax or possibly sales and use tax. Sales and use tax are for states that don't have an individual income tax. If you made a really big purchase last year, and your sales and use taxes are more than your income tax you can take a deduction for that. Property taxes, real estate taxes, mortgage interest, and charitable contributions are the most common itemized deductions. Medical expenses have to exceed 7.5% of your adjusted gross income. Most people, especially if you have health insurance, do not have medical expense deductions unless they have a lot of health issues or medical expenses; but some do. And in that case it's worth it to gather your receipts from the previous year and add up those bills to see if you meet the threshold for that extra deduction. There is also the un-reimbursed employee business expenses which is also apart of an adjusted gross income limitation. Those are some of the most commonly itemized deductions, and are all particular to North Carolina. The federal return has a lot of other credits.

Make sure to double check your math and verify your social security number. That's an area that is common to make errors. A lot of people put their social security numbers for themselves and their dependents. Make sure to put the right number there because the IRS does check and match that up. The fastest deposit is e-file. If you get a call from the IRS or NCDOR don't panic. They may be calling to verify some information because they want to get it right; they are not going to send you to jail. If there is something you don't know look at the NCDOR or the IRS' website as there is a lot of information on these sites.

Another area to be careful about is unverified information received from co-workers, relatives, or friends about a new tax policy. Many times if you hear something that's too good to be true than it probably is. If you pay someone to prepare your taxes be sure to double check your return. If you see a number that's too big or too small you should question it. Tax preparers can make mistakes also, and you're the one who will be held responsible if there is a mistake. So, make sure to double check.

Audience If a professional tax service makes a mistake can they be held liable?

Presenter Each tax service is different and has their policies. You would have to check into it.

Audience So, in North Carolina what is the tax professional's liability? Because if they don't have any responsibility what is the purpose of them having to sign the return? When I sign, I have a legal responsibility for its accuracy. So, what's theirs?

Presenter I'm honestly not sure about the legal aspect. I'm sure that someone could possibly try to sue that tax preparer, but, I don't know. I do know from our perspective that the individual tax payer is the one who will be held accountable because they are signing off on it and have verified the accuracy of the return. Unfortunately, the tax preparer is not liable as far as the NCDOR is concerned. So again, just check and question anything that appears to be unusual in your return.

I want to cover some law changes, and then we can go over any questions that you may have. Everyone may have heard that in October of last year the Economic Stabilization Act of 2008 was put into law, and North Carolina is following some of those tax related items, such as tuition and fees which was set to expire this year, but will be extended for another two years. What that means for North Carolina is you can either take a deduction for two years, you don't have to itemize, or you can take a tax credit. What happens if you claim a tax credit below the line when your taxable income carries over you are not getting the benefit of that deduction if you took that credit. So, what North Carolina allows you to do is take a credit on that return to make sure you are still getting the benefit of those additional fees that you paid equal to what you would have gotten on your federal return if you would have chosen to take the deduction versus the tax credit. I know it's a little confusing...does that make sense where I'm going with this? So, if you or your dependents have tuition fees that you've paid for you can take that

deduction on the IRS form or the NCDOR form. I think it's line 48 this year.

The other thing we're following, I mentioned briefly, this year is the sales tax in lieu of individual tax that was set to expire, but they have extended that. Therefore, you can take sales tax on the federal form as an itemized deduction. They have allowed a standard deduction for property taxes for those who do not have enough to itemize, but do own a home. That is taxes that you pay on your home, not your vehicle. It's up to \$500 for individuals and \$1000 for married couples. It will increase your deduction, but not your North Carolina standard deduction. That's just something to keep in mind that will benefit you on the federal side. And then they passed a federal law for disaster losses for individuals who suffered a personal casualty loss in a disaster area as determined by the President. It's not going to really affect North Carolina tax payers, but those individuals can take a loss in addition to their standard deductions even if they didn't have enough to itemize.

A big thing you may or may not have heard about this year is the earned income tax credit. For the first time this year, North Carolina will have an earned income tax credit. It's based on the federal earned income tax credit. If you have any eligibility requirements we urge you to contact the IRS because it really has to be taken on the federal return in order to take it on the state return. I'm going to go over some general eligibility requirements, but if you have specific requirements you can refer to their rules. It's geared to low to moderate income individuals, and for those who have earned income as part of their taxable income. That includes your wages, and self employment income. Again, you have to meet the criteria for federal earned income tax credit, and file federal and state returns to get this income tax credit. You and the qualifying children you are claiming have to have valid social security numbers. You can't use a tax identification number.

The IRS claimed that at least 18% of North Carolinians qualified for the earned income tax credit. This will be a good chunk of our citizens that will be able to claim this credit and be able to get more money back. It's a refundable tax credit, and what that means is that if your tax credit exceeds your tax liability less all other credits you can still get a refund; most tax credits are not refundable. Most tax credits allow you up to your tax liability, but lets say your entitled to \$150 earned tax credit, but your liability is only \$100 you can still get that full advantage of \$150. For other tax credits you can only get a tax advantage of \$100. The tax credit is going to be 3.5% of your total tax credit. So, whatever your total federal income tax credit is 3.5% of that is what your North Carolina tax credit will be as long as you are a full year resident. Next year it's suppose to jump up to 5%, that's the way

the law was written; granted this can change depending on what they decide in the legislative building, but it is set to jump to 5% at this time. The maximum credit tax payers can get this year for the state portion is \$169. Next year it could go up to \$251. Something that was surprising to me, like I said I've been dealing with taxes for five years now, is individuals who are making \$6,646 could possibly be eligible for the earned income tax credit if they have two or more children. It's a higher income level than I had expected. Some individuals without children may be eligible for 2008 if they make less than \$12,282. Without any qualifying children they may be entitled to it.

North Carolina is reducing our highest tax rate down to 7.75% so anyone in that higher tax bracket may pay a little less tax this year. We've added some new lines this year for the earned income tax credit. On the North Carolina form you carry that over from the D400TC form to the D400 form.

The last thing I want to cover is the long-term care tax credit. This tax credit expired in 2002, and was reenacted last year. When it came back last year it was a little different; there are some adjusted gross income limits to it. It's \$100,000 for joint tax payers, \$60,000 for single tax payers, and it's adjusted based on the filing status. It's 15% of any long-term care premiums that have been paid. These are long-term care premiums...last year we had a lot of problems with many people who misunderstood what long-term care really is. The definition of long-term care is premiums paid on a qualified policy where services are rendered to an individual who is critically ill, and care is provided on a plan by a licensed health-care practitioner. It's not disability or critical care insurance. This is insurance that would cover some of the cost for a nursing home, for example. If you do have some of this insurance you can take 15% of your premiums up to \$350 per contract. If you and your spouse have a contract you can take up to \$700. Another thing to mention is that if you claim medical expenses on your itemized deductions and you include these premiums in your medical expenses then you can't take the credit because you are already getting the benefit.

Well, I think that covers it. If there are no questions I wish to thank you for taking the time to come and listen to me today.

