This Is A StickUp; Give Me All Your Tax Money!

"Things You Didn't Know About Your Taxes"...Be Prepared!

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Table of Content

#1. Your Filing Status Affects Your Taxes

Some people miss out on the fact that the right filing status can result in the lowest possible income tax payment. Officially, you only have one filing status.

This is determined whether you were considered married at the end of the year. An individual's filing status determines which standard deduction amounts apply to a specific tax return.

It means two people with the same amount of income could have different tax calculations resulting from the difference of their individual filing status.

The filing status is established by the persons marital status on the last day of the year. For tax collection purposes, people who are married during the year are considered married for the whole year.

On the other hand, people who become divorced or legally separated will be considered unmarried for the whole year. There are situations where married people can be considered unmarried for tax purposes even if they are not legally divorced or separated.

Single filing status

You are not married. (This includes people who are legally separated or divorced at the end of the year.) If you want to claim a dependent, check out if you qualify for the Head of Household filing status to avail of more tax benefits.

Head of household filing status

You are unmarried. You can claim a dependent and you have cared for a dependent for over half a year. Claimants to head of household (HOH) filing status have a higher standard deduction and lower tax rates. Not all single parents qualify for head of household status.

Qualifying widow/widower with dependent child filing status

Your spouse died within the last two years, you have cared for a dependent all year, and you have not remarried. Qualifying widows and widowers (QW) receive the same standard deduction and tax rates as those married filing jointly.

In the year of your spouse's death, you can file a joint return. Use the QW filing status for the next two years if you have a dependent. Afterwards, your filing status would be single or head of household.

Married filing jointly filing status

You are married, and you are filing a joint return with your spouse. You are considered married if you are legally married on the last day of the year. Married filing jointly (MFJ) provides more tax benefits than filing separate returns.

Married filing separately

You are married, but you and your spouse are filing separate tax returns. Married filing separately (MFS) taxpayers have the least beneficial tax treatment.

Reasons for MFS include (1) only one spouse wants to file taxes, (2) one spouse is self-employed, (3) one spouse owes taxes, the other has a refund, (4) and the spouses are separated but not yet divorced.

Have you found out now your tax filing status?

#2. Who are Qualified for the Child Tax Credit?

Here's good news for parent-taxpayers out there: you can decrease your tax bill by claiming a child tax credit.

Essentially, the child tax credit is a non-refundable tax relief that is directly applied against the income tax. This means the tax credit is not just deducted from your taxable income; rather, it is directly deducted from your actual taxes. The child tax credit reduces tax by $1,000 for every qualifying child (until 2010), as mandated by the Working Families Tax Relief Act of 2004.

To be able to claim the child tax credit, you have to meet several criteria. First, you must earn a minimum amount of $3,000 to qualify for the tax credit. The income includes the taxable earned income and the nontaxable combat pay.

Second, your child must be eligible for the tax credit. A qualifying child satisfies the following requirements:

* Under the age of 17 at the end of the tax year

* A citizen, alien, or resident alien of the United States (A legally adopted child from another country who lives with the parent qualifies for the tax credit.)

* Related to you in any of these ways: biological child, legally adopted child, stepchild, foster child, grandchild, sibling, stepsibling, niece, or nephew

* Lives with you for more than half of the taxable year

* Dependent on more than half of your support

Now, if you are sure that you are eligible for a child tax credit, you can claim it by filing the Form 1040 or Form 1040-A. Claiming the child tax credit is not allowed on Form 1040-EZ since it is intended only for single taxpayers or those who have no dependents.

If you have three eligible children, you are qualified for a $3,000 deduction from your taxes. But if your tax is only $2,000, the credit will only apply for the tax owned, which is $2,000. Although you are not allowed to claim a tax credit whose amount is higher than your income tax, you are allowed to ask for a refund of the difference between your child tax credit and your income tax, provided that you meet certain requirements. You may qualify for an additional child tax credit, which is equal to the lost credit (In the above-mentioned example, it's $1,000). To claim the additional child tax credit, you will need to fill out and file Form 8812.

Given the hard financial times, all a family needs is a breather from the burdens of tax. A child tax credit provides a welcome financial relief for parents who are struggling to make both ends meet.

#3. Where Do Your Taxes Go?

"In life, only death and taxes are certain," as the old clich, goes. As a citizen and an automatic taxpayer, you might wonder where your taxes actually went.

As a general knowledge, we all know that governments need taxes for the system to function. It pays for the services it is obligated to spend on the people. On a piecemeal basis, just how was the federal tax dollar spent? (Let us take on the 2008 budget.)

Government spending

In 2008, the federal government spent $3 trillion which is 21% of the country's GDP (gross domestic product). More than $2.5 trillion was financed by the federal tax revenues and the remaining $459 billion was from borrowed money. This amount will ultimately be paid by future taxpayers.

Defense

21% of the 2008 budget ($625 billion) was spent for defense and security-related international activities. This includes the cost of supporting operations in Iraq and Afghanistan which was appropriated by Congress for approximately $188 billion. (This was funding, not actual spending.)

Social security

Another 21% ($617 billion) was given to Social Security for the retirement benefits of some 35 million retired workers and their dependents.

Social security also gave survivors benefits to 9.1 million disabled workers.

Medicare, Medicaid, and Children's Health Insurance Program

Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) together accounted for 20% of the budget ($599 billion) spent.

$391 billion went to Medicare which provided health coverage to around 45 million over 65 years old or with disabilities. Medicaid and CHIP provided care to 55 million low-income children, elderly people and people with disabilities, funded by the remainder of their appropriations.

Both the Medicaid and CHIP spending required matching payments from the states.

Safety net programs

Another 11% of the budget ($313 billion) was used to support programs that provided aid (different from health insurance or Social Security benefits) to persons and families who were hard up.

These programs included the refundable portion of the earned-income and child tax credits. They had assisted low and moderate-income families through the tax code. There

were other programs that provided cash payments to eligible individuals or households including the Supplemental Security Income for the elderly and the disabled poor and unemployment insurance, among the many other assistance and various programs for the underprivileged.

(These programs have been shown to have lifted approximately 15 million Americans out of poverty in 2005 and reduced the depth of poverty for another 29 million people.)

Interest payments

In 2008, interest payments for past borrowed money had reached $253 billion or equivalent to some 8% of the budget.

That is a bird's eye view on where your taxes went for the year 2008. The story for 2009 was a completely different story caused by the world-wide economic downturn.

#4. What You Need to Know About the New First-time Home Buyer Credit Tax

The first-time homebuyer credit is extended and expanded in the Worker, Homeownership and Business Assistance Act of 2009, signed on November 6.

This newly signed law states that an eligible taxpayer must purchase or enter into a binding contract to buy a principal residence on or before April 30, 2010 and closes the home by June 30, 2010. To qualify for purchases in 2010, they have the option to claim credit on either their 2009 or 2010 return.

In addition, the law also authorizes the credit for long-time homeowners who buy new principal residences. It also raises the limitations on income for homeowners who claim the credit. From $75,000 income limits for single taxpayers and $150,000 for married taxpayers, it is now $125,000 for single and $225 for married couples filing joint returns.

There are new benefits given only to Foreign Service and intelligence community serving outside the United States.

Also, worth noting are factors and aspects that do not qualify for tax credit. For example, the people a taxpayer claims as dependents do not qualify for a tax credit. This includes anyone under the age of 18. A home purchase from relatives of both the taxpayer and his or her spouse is invalid for tax credit. This includes a taxpayers ancestors such as parents and grandparents, lineal descendants such as child or children and grandchildren, and spouses.

If one of the married couple has earlier owned a home, either of the two is not eligible to claim a first-time home buyer

tax credit. However, they can still apply for the repeat home buyer tax credit up to $6,500. Repeat home buyers are taxpayers who have owned a home for five consecutive years aside from the prior eight years. It is applied to houses sold after November 6, 2009 and on or before April 30, 2010. If a binding sales contract is signed by April 30, 2010, any home being completely bought by June 30, 2010 will qualify.

Moreover, neither the first-time home buyer tax credit nor the repeat home buyer tax credit have to be repaid unless the home is sold or ceases to be used as the buyers principal residence within three years after the initial purchase.

Another thing to remember is that taxpayers should submit a copy of the HUD-1 statement and IRS Form 5405 in claiming first-time home buyer tax credit or repeat home buyer tax credit.

#5. What Is Alternative Minimum Tax?

A lot of people, especially those that are planning on starting their own business, should start learning about taxes, especially since they will be required to pay Federal income tax, which is basically a system of the United States. One particular tax that you should learn about is called the alternative minimum tax.

What is AMT?

Alternative minimum tax, or AMT, is a tax system that is part of the United States Federal income tax system, and is basically used for those people and corporations who owe personal income tax and corporate income tax respectively. Basically, this tax is considered to be an extra tax since you will still need to pay this tax aside from the regular income tax that you need to pay. As the name suggests, you are actually subject to a different set of rules, thereby giving you an alternative way of calculating your income tax. In theory, you are supposed to be paying a certain minimum amount for your income tax. If you are already paying that same amount through your regular income tax, then paying AMT should no longer be an option. However, if your income tax falls short of the minimum, then you would be required to pay off the difference through AMT.

What Is The Purpose Of AMT?

AMT was actually created for the purpose of preventing people who have very high incomes from abusing special benefits in paying their taxes, thereby greatly reducing the amount of income tax that need to pay. These high-income households use certain types of deductions to bring their tax down to a certain minimum. Unfortunately, AMT has already widened its range, and can now include even those people who do not have a very high income, or even those that do not necessarily claim a lot of deductions and special benefits, which means that almost anybody that fits within criteria set for AMT can be have AMT liability.

What Can Cause AMT Liability?

You can have AMT liability through a number of possible ways. It can be taken from a big item in your tax return, or it could be made up by a combination of small items, whichever one could cause or contribute to your AMT liability. Claiming a lot of personal exemptions can contribute to your AMT liability. The more you claim, the greater the chance of you becoming liable. Standard deductions in your income tax return, state and local taxes, medical expenses, even interests on second mortgages could all lead to AMT liability.

How Do You Calculate Your AMT?

In order for you to better understand AMT liability, you need to understand first how that particular type of tax is calculated. What you do is basically calculate first the alternate tax by taking note of all the various tax benefits that can be taken under the regular tax so that you can reduce it in your calculation. Also factor in the AMT exemption, which is a special deduction that applies to people who have low to modest income. Then, you calculate the tax by adding the 26% to 28% AMT rates, especially to those who have higher income levels. Once you have done this, you then calculate the difference between this tax with your regular tax. If your regular tax is lower than the AMT tax, then it will be added to your regular income tax, and you will be required to pay the difference between the two. If, however, your regular income tax is higher, then you don't have to pay any AMT tax.

Why Do People Want To Repeal AMT?

A lot of people want AMT tax to be repealed because AMT tax is not just targeting people with very high incomes anymore, but can also include those who have modest incomes as well. This means that almost anyone can become a potential target for AMT tax.

Can You Get AMT Credit?

There is a possibility that you can actually claim special AMT credit, but only through certain terms and conditions. One condition is that paying AMT for specific timing items, like incentive stock options, will let you get credit for those specific items only in the future.

#6. What Can You Deduct For Home Business?

If you have your own home business, or if you are working in a home business company, then you are in luck. If you do not already know, owning or working for a home business can subject you to certain tax deductions, just as long as the deductions are within the specified terms and requirements for it to be considered. A percentage of the space in your home, more specifically the area used for the