



Tax Tips You Can Use May 2008

THE BASIC'S - FEDERAL TAX FORM 1040

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In the continuing series of articles on the basics of tax returns, our next topic is the 1040 form itself, the basic tax form that most of us file with the IRS. This article will discuss page one of the 1040 and next month's article will discuss page two.

The form 1040 is divided into six sections, three on the first page and three on the second page. The first section on page one is the header. The taxpayer (and spouse) identifies himself, his filing status and identifies the dependents on the return.

The second section is the income section. There are separate lines for different types of income. Some income, such as wages, unemployment, pensions, refunds and alimony are entered directly on the 1040. Most other income is transferred from another form. Farm income comes from Schedule F to the 1040. Business income comes from schedule C. Income is also figured in schedules B,D,E1,E2 and many numbered forms. As tax law has become more complex, the form has needed to include other income information. There is now a line on the form to include tax-exempt interest. Although it is not taxable, it is used as part of income for some credit calculations. All IRA and pension distributions are entered onto the 1040, even though Roth and rollover amounts can be non-taxable. Social Security payments are also entered, although only a portion may be taxable.

The last section on page one is the adjustments section. Congress has passed laws to allow very special expenses to be "Adjustments". The best examples are contributions to IRA or other retirement plans, education expenses of several types and alimony. In addition, self employed taxpayers can deduct half of the self employment tax and, in some cases, their health insurance premiums.

The "Adjusted Gross Income" (AGI) is the sum of all income minus the sum of all adjustments and is at the bottom of page one. Adjustments reduce AGI and so, are better than itemized deductions. AGI is used in several other forms to figure the phase out and limits for certain deductions and credits and is a common number requested on loan applications and other financial documents. If you have gone through your tax return, you will know that AGI is at the bottom of page one and also at the top of page two, where the form story continues next month.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

