MONEY MANAGEMENT

ANSWERS TO COMMON TAX QUESTIONS

RENO -- The end of the calendar year also represents the end of the tax year for most people. That means it's time to think about preparing your 1994 tax return. To help you get started, the Nevada Society of CPAs provides the following answers to commonly asked questions.

1) How many personal exemptions may I claim?

You may claim an exemption of $2,450 for yourself, your spouse and each dependent. However, personal exemptions are phased out based on your adjusted gross income (AGI). The phase-out thresholds for 1994 are $111,800 for single filers; $167,700 for married couples filing jointly; $139,750 for heads of household; and $83,850 for married persons filing separately.

The exemption amount is generally reduced by 2 percent for each $2,500 (or fraction thereof) by which your AGI exceeds these thresholds.

2) Who qualifies as a dependent for tax purposes?

Generally, dependents include your children, other relatives and members of your household as long as you provide more than 50 percent of their annual support. Gross income and residency tests also apply.

3) My sixteen-year-old daughter worked during the summer. Does she need to file a tax return?

The answer depends on how much money she earned. A dependent child must file a return if his or her earned income fron a job exceeds $3,800, or self-employment income exceeds $400.

Be aware, however, that if a dependent child has unearned income— such as interest on a savings account— of more than $600, he or she needs to file a tax return.

4) I got divorced this year. Since we were married for most of 1994, can I file a joint return with my ex-spouse?

No. The IRS will use your marital staus as of December 31, 1994. Consequently, if your divorce was final before the end of the year, the IRS considers you single for the whole year. You must file a tax return as a single taxpayer, or, if you meet certain requirements, as a head of household.

5) What requirements must I meet to file as head of household?

Generally, to qualify as of household for 1994, you must be unmarried as of December 31, 1994, and have furnished more than half of the cost of maintaining a residence for a relative who lived with you for more than six months of the year and who qualifies as a dependent, or is your child.

Parents are the most common exception to this rule. They do not have to live with you in order for you to claim the head of household status. For example, if during the year you pay more than half the cost of a nursing home for your dependent parents, you can still qualify as head of household.

6) What am I allowed to deduct for medical expenses?

Only unreimbursed medical expenses in excess of 7.5 percent of your AGI are deductible. Eligible expenses include fees paid to hospitals and doctors, as well as amounts paid for prescription drugs, medical equipment (such as wheelchairs), and insurance.

7) What are miscellaneous itemized deductions?

These are qualifying expenses which are typically deductible to the extent that they exceed 2 percent of AGI. These include: unreimbursed employee business expenses; job-hunting expenses; expenses connected with producing income; expenses incurred to prepare your tax return or obtain tax advice; and other expenses, such as the costs of work clothes or union dues. For some high-income tawpayers, itemized deductions are subject to phase-out rules.

8) Who can take a deduction for IRA contributions?

You can deduct your IRA contribution if you and your spouse don't participate in an employer's retirement plan; or you are covered by an employer plan and your adjusted gross income is under $25,000, if single, or $40,000, if married filing jointly. Once you satisfy either of these requirements , you can shelter up to $2,000 if single, and up to $4,000 if married and both spouses work. If only one spouse works, the most you can contribute is $2,250.

9) What if I can't file my tax return by April 15?

File Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. This form will give you until August 15 to file your tax return. However, you still must estimate your tax bill for the year and pay any taxes that are due on or before April 15.

If you have additional questions about your taxes, seek professional help from a CPA early in the year.

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Ideally, the solution to the pension dilemma would be a flexible plan that lets you and your spouse receive the maximum pension benefit while still providing for your spouse's financial security in a cost-effective manner should he/she survive you. In some instances, a concept called pension maximization can offer you these benefits.

With pension maximization, you elect the maximum pension benefit and purchase a life insurance policy with a face amount large enough to provide your spouse with sufficient income to replace the benefit payable under the reduced pension option. Your spouse is named as beneficiary and perhaps owner of the life insurance.

Although the pension maximization concept has appeal, it does not always make sense. First, the amount and duration of the life insurance premiums must be considered. If the life insurance costs more than the amount of income you gain by selecting the maximum annual pension benefit, then the

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