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# PERSONAL TAXES

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# DISCLAIMER

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- ❖ Federal income tax; states may differ
- ❖ Information is specific to US citizens
- ❖ International students should contact the Harvard International Office
  - ❖ <http://www.hio.harvard.edu/tax-filing-information>
- ❖ All data specific to the 2015 tax year

# PERSONAL TAXES

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- ❖ Vocabulary
- ❖ Filing Requirements
- ❖ Forms
- ❖ Tax Return
- ❖ How to File
- ❖ Additional Resources

# VOCABULARY

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- ❖ Credit reduces tax liability dollar for dollar (vary by filing status)
- ❖ Deduction reduces taxable income (vary by filing status)
- ❖ Exemption amount allowed as a reduction of income that would otherwise be taxable Two types personal & dependent



# VOCABULARY

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- ❖ Gross Income includes all income from all sources unless specifically exempt by the Internal Revenue Code
  - ❖ Includes money earned from work or services (earned income) or gained from investments (unearned or passive income)
- ❖ Withholding amount of pay that employer sends directly to the IRS for employees each pay period

# FILING REQUIREMENTS – DO YOU NEED TO FILE?

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- ❖ Earned: \$10,300 (single) \$20,600 (married)
- ❖ Taxes withheld from payments
- ❖ Refundable tax credits
- ❖ Self-employed with earnings of more than \$400.00
- ❖ Sold your home or owe special tax on IRA or MSA account
- ❖ Owe tax on tips you did not report
- ❖ Alternative Minimum Tax or Recapture Tax
- ❖ Unsure? <http://www.irs.gov/uac/Do-I-Need-to-File-a-Tax-Return%3F>

# 1040 FORMS

Tax Software programs automatically use the appropriate tax form based on your individual information.

- ❖ Form 1040 – “Long Form”
  - ❖ Facilitates all income types, deductions and credits. Use this form if unsure.
- ❖ Form 1040-A
  - ❖ Only adjustments: IRA deduction, student loan interest or tuition and fees
  - ❖ No itemize deductions
  - ❖ Only income from wages, unemployment, tips, dividends, scholarships & interest (less than \$1,500)
- ❖ Form 1040-EZ
  - ❖ Most simple tax return



# FLOW OF RETURNS

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- ❖ Personal Information & Filing Status
- ❖ Exemptions
- ❖ Income
- ❖ Adjustments to Income
- ❖ Deductions
- ❖ Tax
- ❖ Credits
- ❖ Refund/Amount due IRS



# FILING STATUS

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- ❖ Single
- ❖ Married filing jointly
- ❖ Married filing separately
- ❖ Head of household
  - ❖ Must be unmarried
  - ❖ You paid more than half costs for home upkeep
  - ❖ A “qualifying person” lived with you more than half the year
- ❖ Qualifying widow(er)

# FILING STATUS – MARRIED FILING SEPARATELY

If your filing status is ‘Married Filing Separately’ you may not be eligible to claim certain tax benefits, including:

- ❖ Tuition and fees deduction
- ❖ Student loan interest deduction
- ❖ Child and dependent care credit
- ❖ Education credits
- ❖ Earned income credit

# EXEMPTIONS

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- ❖ Personal exemption = \$4,000
- ❖ Dependent exemption = \$4,000
- ❖ Exemptions will be added up and subtracted from your income to calculate tax
- ❖ Note: Exemptions are tied to specific people and can only be taken once
- ❖ If you can be claimed by someone else, you cannot take your personal exemption even if the taxpayer entitled does not take your exemption



# INCOME

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## ❖ Figures from:

- W2 - wages
- 1099 – for all other types of income
- 1065 or Schedule K
- Other non-reported income:
  - Cash paid for services, e.g. tips
  - Scholarships or Fellowships
  - Foreign Sourced Income

# INCOME – SCHOLARSHIPS AND FELLOWSHIPS

These are generally not reported to you on any IRS Tax Form, you must self report this income. Failure to do so could result in steep penalties and interest.

- ❖ Qualified Scholarships, Fellowships and Grants are not reportable:
  - ❖ You are a degree candidate at an educational institution
  - ❖ The amounts received are used to pay for tuition and fees required for enrollment or for fees, books, supplies, and equipment for courses at the educational institution
  - ❖ Does NOT include money used for other items, including room and board expenses

# ADJUSTMENTS TO INCOME

- ❖ Adjustment – An expense that can be deducted from income to reduce your taxable income
- ❖ Common adjustments:
  - ❖ Student loan interest deduction
  - ❖ Tuition and fees deduction (See Credits – Education benefits)
- ❖ AGI (Adjusted Gross Income) = Income minus Adjustments
  - ❖ AGI is the figure used to calculate state income



# DEDUCTIONS – STANDARD DEDUCTION

- ❖ The standard deduction is meant to be the amount of the average US tax payer's itemized deductions
- ❖ Standard Deductions:
  - ❖ Single/Married filing separately = \$6,300
  - ❖ Married filing jointly/Qualifying Widow(er) = \$12,600
  - ❖ Head of Household = \$9,250
- ❖ You are not eligible for standard deductions if:
  - ❖ Your filing status is married filing separately and your spouse itemizes deductions on his or her form

# DEDUCTIONS – ITEMIZED DEDUCTIONS

- ❖ Use Schedule A – consists of personal deductions
- ❖ Use only if it totals more than standard deductions
- ❖ Common Deductions:
  - ❖ Large unreimbursed medical expenses (10% of AGI)
  - ❖ State, Local and Real Estate Taxes
  - ❖ Interest payments on your home
  - ❖ Charitable contributions
  - ❖ Unreimbursed employee expenses (2% of AGI)
- ❖ Business deductions found on Schedule C

# TAX

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## ❖ Figuring your taxable amount:

All income

– Adjustments & deductions

Taxable income

## ❖ Use tax tables for tax amount due



# CREDITS

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- ❖ Credits reduce tax liability, generally dollar for dollar, although many phase out, or go away, when AGI is above a certain amount
- ❖ Credits can reduce your tax to 0. A few credits are refundable and allow you a refund if tax is reduced below 0

# CREDITS

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- ❖ Child Care Expense Credit (up to 35% of expenses)
- ❖ Child Tax Credit
- ❖ Additional Child Tax Credit
- ❖ Earned Income Credit
- ❖ Retirement Savings Contributions
- ❖ Education credits
  - ❖ Lifetime Learning Credit
  - ❖ American Opportunity

# CREDITS – EDUCATION BENEFITS

You can only take one education benefit for the same student and the same expenses

Criteria	American Opportunity Tax Credit	Lifetime Learning Credit	Tuition and Fees Deduction
Maximum Benefit	\$2,500 credit per student	\$2,000 credit per return	\$4,000 deduction per return
Refundable?	Partially - 40%	No	No
AGI limit	\$90,000	\$62,000	\$80,000
Limits	First 4 yrs. Enrolled at least ½ time No felony drug convictions	No limit	No limit
Form to Use	8863	8863	8917

Full table available at <http://www.etc.irs.gov/Other-Refundable-Credits/educompchart>



# REFUND/AMOUNT DUE

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- ❖ If amount of withholding larger than tax owed = refund
- ❖ If the amount withholding not as much as taxes owed = taxes due
- ❖ If you have to pay, or get too much back, can update your W4 with your employer

# HOW TO FILE

## ❖ Online:

- ❖ Free: <http://www.irs.gov/uac/Free-File:-Do-Your-Federal-Taxes-for-Free> \*Be aware that “free” is usually federal only and some sites charge to e-file
- ❖ Most are only free if your income is below a certain level
- ❖ Massachusetts offers free eFiling if eligible at <https://wfb.dor.state.ma.us/income14/EligibleToFile.aspx>
- ❖ Note that normally you are charged an additional fee if you chose to pay for return preparation out of your refund
- ❖ Note that “Instant Refunds” or “Advance Refunds” are loans that may have very high interest rates

# ADDITIONAL RESOURCES

- ❖ University Student Financial Services - <http://sfs.harvard.edu/taxes>
- ❖ IRS Helpline 800.829.1040
- ❖ IRS website [www.irs.gov](http://www.irs.gov)
- ❖ Free/low income tax preparation in the Boston area:
  - ❖ [www.bostontaxhelp.org](http://www.bostontaxhelp.org)
  - ❖ Greater Boston Legal Services 617.371.1234



# QUESTIONS

