

February 1986

Dear Taxpayer:

I hope the enclosed newsletter will help you take advantage of all the tax deductions to which you are entitled in 1985. The newsletter was prepared with senior citizens in mind. Older people (especially those on fixed incomes) ought to be certain that they are not paying more in taxes than they should.

Congress is now at work revising our tax laws. So far, like-minded colleagues and I have been successful in battling Reagan Administration attempts to reduce or eliminate deductions for charitable contributions and medical expenses. Unfortunately, many of the tax provisions which benefit only corporations or extremely wealthy individuals will probably be retained.

The newsletter is just a general summary. For further information and answers to your specific questions, please contact the Internal Revenue Service at 1-800-424-1040.

Sincerely,

HENRY A. WAXMAN
Member of Congress

P.S. After March 15, 1986, you will be able to call IRS to verify that they have received your return and to find out if your refund check has been mailed. This service will be available through the Tele-Tax system; please see page 1 for details of how to use this service.



Waxman R-1
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TUESDAY, FEBRUARY 11, 1986

TYPEFACES USED IN THIS JOB:
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Congressman Henry A. Waxman's Washington Reporter

Special Income Tax Edition: Especially Helpful for Senior Citizens

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8425 W. Third St.
Los Angeles, Calif. 90048

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NO. 3

Who Must File a Federal Tax Return

You must file a return for 1986 even though you owe no tax if:

And your income was at least:

1. You were single, divorced or married with a dependent child and living apart from your spouse for all of 1985 and were:
 - Under age 65 \$3,430
 - Age 65 and over \$4,470
2. You were married filing a joint return and were living with your spouse at the end of 1985 or on the date your spouse died and:
 - Both were under age 65 \$5,620
 - One was age 65 or over \$6,660
 - Both were age 65 or over \$7,700
3. You were married filing a separate return or married but you did not share the same household at the end of 1985 \$1,040
4. You were a qualifying widow(er) with a dependent child and:
 - Under age 65 \$4,580
 - Age 65 or over \$5,620
5. Your employer paid you in advance for any Earned Income Credits because you lived with a minor child and expected to have an income of less than \$11,000. You **must** file a return regardless of your total income.
6. Income tax was withheld from your pay. Then you **should** file a return so that you can get a refund of the tax withheld, even if you are not otherwise required to file a return.

IRS Tele-Tax Recordings

The IRS has approximately 150 pre-recorded tapes that answer most common Federal tax questions.

Long distance charges may apply if you call from outside the local dialing area. You may listen to 3 tapes per call. You should have a pencil and paper ready to take notes. The following is a partial list of Tele-Tax tapes which are of particular interest to older Americans.

Tape Number

- 100—IRS tax assistance, volunteer tax assistance and outreach programs
- 101—Telephone help for the deaf/hearing impaired
- 110—Who must file
- 112—When, where and how to file
- 119—Exemptions for age and blindness
- 139—Pensions and annuities
- 218—Individual Retirement Accounts (IRAs)
- 227—Should I itemize my deductions?
- 306—Child care credit—do I qualify?
- 308—Residential energy credit
- 309—Credit for the elderly and disabled
- 315—Highlights of 1985 tax changes
- 328—Tax benefits for low-income Americans
- 337—Checklist of common errors in preparing returns
- 338—Withholding on pensions and annuities
- 400—Sale of home—exclusion of gain—if age 55 and over

The Tele-Tax number for the Los Angeles area is:
(213) 617-3177

Filing Deadline

The filing deadline for 1986 is midnight, Tuesday, April 15. Any return postmarked after April 15 may be subject to tax penalties unless you request an extension of the deadline by then. All taxes, however, must be paid by April 15 even if you request an extension of time to file your return.

Social Security Benefits and Your 1985 Taxes

Generally, you will not have to pay tax on part of your Social Security benefits if your total adjusted gross income was less than \$25,000 (\$32,000 if you are married and filing jointly with your spouse).

ALMOST 90% OF ALL SOCIAL SECURITY RECIPIENTS WILL NOT HAVE TO PAY TAX ON THEIR BENEFITS.

To determine QUICKLY whether or not your benefits may be subject to tax, take the amount of Social Security benefits you received in 1985 and divide them in half. Then add that figure to all of your other income from all sources **regardless** of whether they are considered taxable. If this total is less than \$25,000 (\$32,000 for couples) then you can be sure that none of your Social Security benefits are taxable.

EXAMPLE: A single retiree with:
 \$ 4,800 from a private pension,
 \$ 6,000 in part time wages,
 \$ 2,400 in interest on savings,
 \$ 1,000 in interest on Municipal bonds, and,
 \$ 3,600 one-half of benefits received from Social Security in 1985

\$17,800 Total income. This person's benefits would not be subject to tax.

If your total exceeds \$25,000 (\$32,000 for couples) you still may not be subject to the tax. Use the chart printed below to fully determine whether or not a portion of your benefits is taxable.

For more information on Social Security benefits and your 1985 taxes, please see Publication 915, "Tax Information on Social Security Benefits (and Tier 1 Railroad Retirement Benefits)".

Exemption for Age

Besides the regular \$1,040 exemption allowed a taxpayer, persons who are 65 or older are entitled to an additional exemption of \$1,040. On joint returns, each spouse over 65 may claim the \$1,040 deduction.

You are considered 65 on the day before your 65th birthday. Thus, if your 65th birthday was on January 1, 1986, you are entitled to the additional exemption for age on your 1985 income tax return.

Credit for the Elderly

A taxpayer who is 65 or older, or under 65 and permanently and totally disabled may be able to claim this credit. Due to a significant increase in the base amounts, this credit can be as much as \$750 (if single) or \$1,125 (if married filing jointly). See schedule R for more information.

Sale of Residence by Elderly Taxpayers

A taxpayer may elect to exclude from gross income part or, under certain circumstances, all the gain from the sale of his personal residence, provided:

1. He was 55 or older on the date of the sale, and
2. He owned and occupied the property as his personal residence for at least 3 years within the 5 year period ending on the date of sale.

Taxpayers meeting these two requirements may elect to exclude up to the first \$125,000 of gain.

A taxpayer may also elect to defer paying the tax on the gain from the sale if within 24 months before or 24 months after the sale he buys and occupies another residence, the cost of which equals or exceeds the adjusted sale price of the old residence. See publication 523, "Tax Information on Selling Your Home," for additional information.

CLIP OUT WORKSHEET

- A. Write in the amount from Box 5 of all your forms SSA-1099 A
- B. Divide the amount on line A above by 2, and write in the result B
- C. Add up your pensions, wages, interest, dividends, and other taxable income and write in the result C
- D. Write in any tax-exempt interest, such as interest on municipal bonds D
- E. Add lines B, C, and D above and write in the total E

If the amount on line E is \$25,000 or greater (\$32,000 for a couple), see your Federal Income Tax Return Instructions under "Social Security Benefits."

SPECIAL NOTE: Even though interest income from municipal bonds and other tax-exempt sources REMAINS tax-free, it must be included when adding up your income to determine if you meet the \$25,000 (\$32,000) limit.

Partial List of Other Allowable Medical and Dental Expenses

(Subject to 5% limitation)

Abdominal supports*	Food or beverages specially prescribed by a physician (for treatment of illness and in addition to—but not as a substitute for—regular diet). Physician's statement needed	Psychiatrist, Psychoanalyst, Psychologist*
Acupuncture		Psychotherapy
Alcoholism medical treatment		Radiation therapy
Ambulance service		Retirement home medical care fees
Anesthetist	Guide dogs for blind and deaf persons	Sacroiliac belt*
Arch supports*	Gynecologist	Speech therapist
Artificial limbs and teeth	Hearing aids and batteries	Sick room supplies
Automobile equipment for physically handicapped persons	Home health services	Surgeon services
Back supports*	Hospital expenses	Telephone/teletype special equipment for deaf persons—purchase and maintenance costs
Braces*	Insulin treatment	Television special equipment for deaf persons
Braille books and magazines added price	Laboratory tests	Transportation expenses for needed medical care—9¢ per mile, plus parking and tolls; or actual fares for taxi, buses, etc.
Cardiograms	Lip reading lessons	Vaccines
Chiroprapist and Podiatrist	Neurologist	Vitamins prescribed by doctor, but not taken as a food supplement or to preserve general health*
Chiropractor	Nursing home for medical care	Wheelchairs, walkers, crutches, splints, canes, etc.
Christian Science practitioner, authorized	Nursing services for medical care (including nurse's board paid by you)	Whirlpool baths, swimming pools*
Cosmetic surgery	Occupational therapist	X-rays
Dental services	Ophthalmologist, Optician, Optometrist	
Dentures	Oral surgery	
Dermatologist	Orthopedic shoes*	
Drug addiction medical treatment	Oxygen	
Eyeglasses and contact lenses	Physical therapy	
	Physician services	
	Prescription drugs	

*Deductible ONLY if prescribed by a physician. We suggest you verify with IRS before filing your tax return.

Individual Retirement Accounts (IRAs)

Every working individual under 70½ years, whether or not covered by another pension plan, may contribute the lesser of 100% of compensation or \$2,000 to an IRA. Where only one member of a married couple works for income, a total of \$2,250 may be contributed to two IRAs, one each for the earner and the non-earner. You can divide the contribution between the two accounts in any way, except that neither can be credited with more than \$2,000.

You may contribute to an IRA until April 15, 1986, and still take a deduction on your 1985 taxes. However, unlike previous years, even if you are granted an extension to file a return, all IRA contributions must be made by April 15. See publication 590, "Tax Information on Individual Retirement Accounts."

Estimated Tax Payments

Taxpayers may now use this year's refund as a credit against any estimated tax payment for the following year. The overpayment can be applied to an estimated installment where the due date has passed. For example, a taxpayer using an extension of time to file his return may file by August 15 and still credit his overpayment against the April 15 estimated tax due for the following year. Show the amount you want credited on line 67 of your 1040 form and attach a letter to the front of your return if you wish to have the refund credited to the first payment or among any or all of your installments. Installments for estimated tax are due April 15, June 15, September 15 and January 15. For more information, see publication 505, "Tax Withholding and Estimated Tax."

Itemized Deductions

A standard income tax deduction (now called a "zero bracket amount") is already figured into the tax tables from which you will determine your tax bill. The amounts are \$2,390 for single persons, \$3,540 on joint returns and for qualifying widow(er)s, and \$1,700 for married persons filing separately. If the total amount of your allowable deductions exceeds or even approximates these figures, it may be to your advantage to itemize your deductions. The major categories of deductions are as follows:

Medical and Dental Expenses

Medical and dental expenses unreimbursed by insurance or other payments are deductible in the year they are paid to the extent that they exceed 5% of a taxpayer's adjusted gross income.

Drugs and Medicines

Remember, expenses for non-prescription drugs are no longer deductible. Your costs for prescription drugs and insulin are now included in the same category as other medical expenses. (In prior years, drugs were only deductible to the extent that they exceeded 1% of adjusted gross income.)

Home Improvements for Health

Under certain circumstances, home improvements made for medical purposes may be partially deductible. Some improvements likely to qualify include air conditioning, elevators for heart patients, railings for disabled persons, and ramps or other modifications to accommodate wheelchairs.

Charitable Contributions

- People active in charity work are entitled to deduct not only contributions of money, but also certain unreimbursed expenses they incur as volunteers or contributors up to specified percentages of adjusted gross income.
- Travel expenses may be deducted in actual amount or 12¢ per mile plus parking and toll charges (you may not deduct your auto insurance).
- Cost and upkeep of uniforms used in charitable activities.
- Amount paid over the fair market value of goods or services purchased from charitable organizations.
- Out-of-pocket expenses (e.g., postage, stationery, and phone calls) while rendering services for charitable organizations.
- Care of unrelated student in taxpayer's home under a written agreement with qualified organization (deduction limited to \$50 per month).
- **Partial deduction for non-itemizers.** For 1985, you may deduct one-half of your qualified charitable contributions. Qualified organizations are religious, charitable, educational, scientific or literary in purpose.
- A partial credit for political contributions may also be claimed (line 44, Form 1040; on line 21b, Form 1040A).

Casualty or Theft Losses

Damage to non-business property resulting from such causes as theft, auto accident, fire, flood, earthquake, etc., may be deducted. However, you may only deduct the amount which exceeds 10% of your total adjusted gross income, and only the amount which was not reimbursed by insurance or other compensation.

Interest

- Home mortgage
- Personal loan
- Loans on life insurance
- Auto loans
- Installment purchases (e.g., television, stereo, washer, furniture, etc.)
- Credit cards—interest and finance charges only.
- Points—deductible as interest by buyer where financing agreement provides that they are to be paid for use of lender's money.
- Penalty for pre-payment of mortgage.
- Revolving charge accounts—may deduct the "finance charges" if they are based on your unpaid balance and stated separately on your bills.

Taxes

- Real Estate
- General Sales
- State, Local or Foreign Income
- Personal Property

If sales tax tables are used in determining your deduction, you may add to the amount shown in the tax table **only** the sales tax paid on the purchase of automobiles, mobile homes and materials used to build a new home when you are your own contractor. When using the sales tax tables, add to your adjusted gross income any non-taxable income (e.g., Social Security, veterans pension, worker's compensation, railroad retirement annuities, untaxed portion of long-term capital gains, dividends untaxed under the dividend exclusion, interest on municipal bonds, untaxed disability income, the untaxed part of unemployment compensation and public assistance payments or other non-taxable pensions).

If you have any questions regarding your
tax return, call TOLL-FREE
1-800-424-1040