

2002 FEDERAL INCOME TAX: TIPS AND CAVEATS

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I am sure that between January and April of each year, many Extension professionals are asked by their clientele to provide information relative to filing their income tax returns. In addition to the mystique of filling the respective forms, mentioning the name of Internal Revenue Service (IRS) seems to make some taxpayers appear almost petrified. This can be called the fear of being audited. However, the prospect of taxpayers whose income are under \$50,000 being audited is very small, based on their W-2's or 1099 forms, except where earned income or interest income is not reported or is under-reported.

Caveats

Here are some cautions or caveats the taxpayer should be aware of when filing a 2002 tax return.

1. Report all earned income and interest income.
2. Take only those deductions that the law allows.
3. Be careful not to over claim deductions on your charitable contributions. Claim only those deductions for which there is written evidence. Although there is not a written rule, a general guide is that contributions should not exceed 2 percent of one's adjusted gross income (AGI).

In addition to the above mentioned, here are some things taxpayers should consider when filing their returns.

Dependency Test

In order for a person to be claimed as a dependent on a taxpayer's federal income tax return, a dependent should meet the following tests:

1. Live with you for the entire year as a member of your household,
or
2. Be related to you in one of the following ways

- as your child grandchild, or great grandchild,
- your step child,
- your parent, or grandparent,
- the son or daughter of your brother or sister
- your father-in-law, mother-in-law, son-in-law, daughter-in-law, or sister-in-law

If a person died any time during the calendar year and would have qualified as a dependent, he (she) can be claimed as a dependent, as if the person had lived with the taxpayer for the entire calendar year.

Gross Income Test for Claiming a Dependent Child

If claiming a dependent child, make sure his or her earned income (salary and tips), did not exceed \$3,000 in 2002. Exemptions to this rule are:

1. The dependent was under 19 years at the end of 2002, or
2. A student under 24 years old.

The Five Filing Statuses

Taxpayers need to be reminded that there are only five filing statuses:

1. **Married filing a joint return;**
2. **Married filing a separate return;**
3. **Head of household;**
4. **Single; and**
5. **Qualifying widow(er) with a dependent child**

A taxpayer who is married cannot legally claim the filing status head of household. To be more specific, one of the parties husband, or wife **cannot and should not file** as head of household. According to the law, the avenues open to a married couple is either to file jointly, or married filing separately. In short you cannot be both married and head of household at the same time.

Unless there are some compelling reasons to do otherwise, it is better for married couples to file jointly than separately. An exception may be where one of the spouses has an extraordinary amount of income, or wishes to be responsible for paying his (her) taxes. As a rule, married persons filing jointly usually pay less taxes than they would filing separately.

Interest Income

Interest received from financial institutions such as Banks, Savings and Loan Associations (S&Ls), and Credit Unions, etc. is taxable. At the end of calendar year 2002, the taxpayer should receive a statement(s) showing the amount of interest paid to him (her). This should be listed on the appropriate line on Form 1040-EZ, Form 1040-A, or Form 1040.

Earned Income

All earned income should be listed on the appropriate line of one's income tax form. In the case of 1040 filers who receive Form 1099, this amount should be listed on the line for all other income. This is line 21 on the income section of the 1040 form for the 2002 tax year..

Standard Mileage: Business-Related Travel

The standard mileage for business related travel is 36.5 cents. This information either goes on Form 2106-EZ, the regular Form 2106, and on Schedule A of Form 1040.

Paying Federal Income Taxes Owed

A few years ago Congress passed a law which made it easier for taxpayers to pay taxes owed. Persons owing Federal Income Taxes should send Form 1040-V along with their return. The IRS also suggests that 1040-V payment voucher be sent along with each payment. Taxpayers should also remember to put their correct Social Security Number on the form, so they will receive credit for the amount paid. Sending Form 1040-V along with the return only indicates one's intention to pay the taxes owed. Therefore, it is incumbent on the taxpayer to follow through on the agreement to pay the tax that is owed.