

Do Teenagers Owe Taxes?

If a teenager is paid in cash, does he owe any income tax? Just by virtue of being under 18, does she owe taxes?

Here are some guidelines:

- If a teenager has “earned” income over \$5,150 (in 2006) – they owe federal income tax.
- If a student has “unearned” income over \$850 (in 2006) – they owe federal income tax.
- If a student has “self-employment” income over \$400 – he or she owes self-employment taxes (called SE Tax).
- If a teenager under the age of 18 was a “household employee” – they do not owe SE Tax. This income is reported on Line 7 of the 1040 with the note “HSH” with the dollar amount.

Examples:

Earned Income – Lauren works at Sears and makes \$3,100. Lauren does not owe federal income tax because her wages are under \$5,150. She could file a return to get a refund of any federal and state income tax withheld. Lauren works two jobs and earns \$6,000. She must file a 1040 with both her W-2s.

Household employee – Emily earns \$800 babysitting and \$200 give piano lessons. Social security and Medicare taxes do not apply to the \$800 because she is a household employee. Her \$200 from teaching piano lessons is self-employment income, but under the \$400 threshold requiring SE tax. She should still file a Schedule C.

These guidelines may be confusing because there is more than one type of tax covered on the Form 1040; both the income tax and SE tax are on the 1040. There is also more than one type of income that is taxes. There are forms and schedules for earned income, self-employment income, investment income, etc. Be sure to tell your tax professional that your teenager has a job, earned money from saving accounts or has a small business – you will be surprised at how many way teenagers find to make money.

Seniors Are Targets of 40% of Scams

Financial Exploitation is.....

- Forcing a decision
- Made on threats
Pressure
- Incomplete or misleading information

Guarding Against Financial Fraud

Recognize the pitfalls

- Salespeople who misrepresent
- Uninsured products
- Inadequate disclosure
- Misleading fund names
- Unclear account statements

Nine Tips to Avoid Financial Abuse

- Take your time
- Beware of promises of big returns
- Understand the risk
- Involve others
- Check out financial professionals
- Beware of strangers
- Understand nature of the investments
- Monitor account statements closely
- Have a plan

Charitable Giving Documentation Requirements for Income Tax Reporting

There is an old saying "The only sure things in this world are death and taxes." Well, I have to come to recognize a third and that is "tax law change." I have been an Accountant and Tax Professional for thirty-five years and during that time there have been at least twice that many changes to the Internal Revenue Code.

This past August 17th, the President signed into law the Pension Protection Act of 2006. It contained two provisions that affected individual income taxes and the use of charitable deductions.

The first involves cash contributions. Simply stated, the taxpayer must have documentation supporting the deduction regardless of the amount. There is **NO dollar threshold, high or low, for this documentation** requirement. This can be in the form of a check, a bank record or a statement from the donee organization. You will no longer be able to claim a deduction for cash contributions such as cash in the church offering plate or the bell ringer's kettle at Christmas time. How do you best preserve your right to this deduction? In the case of the church you may use a check payable to the church or you may use the envelope system with your name clearly shown on the envelope so that the Financial Secretary will be able to record it on your church statement of giving. At the end of the year you will have the documentation you need and in two forms.

We sometimes have the opinion that these loose cash amounts do not add up to much and not worth the effort to document. On the other hand, I don't know of a single taxpayer who desires to pay more in tax than is required. For those of you who are able to utilize this deduction as an itemized deduction the tax dollar savings is easy to calculate. Regardless of your tax bracket, 10%, 15%, 25%, 28%, 33%, or 38%, you multiply the tax bracket percentage by the amount of the gift. Therefore, on a \$100 total accumulation of cash giving at the lowest bracket you save \$10 and at the highest bracket you save \$38 in taxes. I'm sure you have a place you can use the extra money saved. Don't you agree?

Gary C. Rohrs, EA ABA ATA

Motivational Quote

"You learn more from losing than you do with winning."

John McEnroe (1959 -)
former World No. 1 professional tennis player

Estate Tax Planning is a Nightmare

Why? The tax will act like a yo-yo in the coming years. In 2009 the exemption jumps from \$2 million to \$3.5 million. In 2010 the estate tax is eliminated, though the heirs of large estates face higher future tax bills because they'll have to use carryover basis on inherited assets. In 2011 the tax returns with a 55% top rate and a \$1 million exemption.

Politics is to blame.

There are steps you can take regardless:

- Keep on making annual gifts
- Don't overlook tuition and medical expenses
- Create a family limited partnership

Tax Calendar for Oct

Oct 15 – 1040 Extended Returns Due
1065 Extended Returns Due
Federal Tax Deposits

Oct 22 – Sales Tax Due

Oct 31 - 3rd Quarter Payroll Reports
941