THE TAX FILE

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February 2020

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Filing Status

When you file your tax returns for 2019 you need to indicate your "filing status". Your filing status can change during the year, so the status you used last year might not be appropriate for this year.

Your filing status can impact your tax liability. It determines whether you are required to file a tax return, the amount of your standard deduction, your eligibility for certain credits, and the calculation of your tax. It's important to choose the correct status, and it may save you taxes!

Generally, there are five choices for your filing status. We'll describe each of the statuses briefly and give you information about who qualifies under each status. The starting point for determining your filing status generally depends on whether you were single or married on December 31.

Single
Normally, this status is for taxpayers who are unmarried, divorced, or legally separated under a divorce or separate maintenance decree under state law on December 31.

Married Filing Jointly
If you are married on December 31, you can file a joint tax return with your spouse. If your spouse passes away, the widowed spouse can usually file joint return for that year.

When you file a joint tax return, both spouses have joint and several liability for the tax reported on that tax return, and for any additions to tax, interest or penalties that arise from the joint return, even if they later divorce.

Joint and several liability means that each taxpayer is legally responsible for the entire tax liability. Both spouses on a married filing joint return are generally held responsible for all the tax due, even if one spouse earned all the income or claimed improper deductions or credits.

Married Filing Separately
Married couples can choose to file separate tax returns. In some circumstances this may result in less total tax than filing a joint tax return.

In addition, there is no joint and several liability since each spouse files his or her own tax return.

There are some drawbacks under the married filing separately status. Generally, your tax rate will be higher than on a joint tax return. You can't take the credit for child and dependent care expenses in most cases under this filing status. You aren't eligible for the earned income credit, income exclusions or credits for adoption expenses, education credits, the deduction for student loan interest, or the tuition and fees deduction.

Several other credits and exclusions may be reduced or eliminated for married taxpayers filing separate tax returns.

On the other hand, there may be some advantages to this filing status, depending on your circumstances. If your gross income on a separate return is lower than it would be on a joint return, you may be able to deduct larger amounts for deductions that are limited by adjusted gross income, such as medical expenses.

Head of Household
Unmarried taxpayers may be able to file as head of household, but special rules apply. For example, to qualify for this filing status, you must have paid more than half the cost of keeping up a home for yourself and a qualifying person living in the home for at least half the year. Temporary absences, such as school, are considered time lived in your home.

A qualifying person includes your child, including a grandchild, who lived with you for more than half the year and meets certain other tests. Or, your parent might be a qualifying person, even he or she does not live with you, if you qualify to claim your parent as a dependent.

If you qualify to file as head of household, your tax rate will usually be lower than the rates for single or married filing separately. You will also receive a higher standard deduction.

Qualifying Widow(er) with Dependent Child
This status applies to taxpayers if their spouse died and they have a dependent child. The widow(er) can use this filing status for two years following the year of their spouse's death.

This filing status allows you to use joint return tax rates and the highest standard deduction amount (if you don't itemize deductions).

There are other requirements to qualify for this filing status, including income limits for your dependent children, a requirement that you paid more than one-half the cost of keeping up a home for the year, and more.

Other Considerations
Each filing status has requirements, and each has exceptions to the general rules. For example, even if you were married on December 31, you may qualify to file under the head of household status.

If you qualify to file under more than one status, you can choose to file under the status that will give you the lowest total tax.

If you have any questions about your filing status, or whether you qualify for a filing status that might save you taxes, please contact our offices. We can analyze your situation to determine your best option.

Illinois Update

Illinois taxes have changed quite a bit over the last few years. Here's a summary of some of the changes that may impact your tax returns.

Real Estate Tax Credit Issues
Illinois allows taxpayers a credit on their individual income tax return equal to five percent of the IL property tax (real estate tax) they paid on their principal residence. To claim the credit, you must own and live in your residence, and provide the name of your county and your real estate Property Index Number (from your tax bill) on your IL tax return.

During 2019, IL Department of Revenue sent notices to taxpayers reducing or disallowing these credits. The notices indicated that the State was unable to confirm the taxes paid as reported on the taxpayer's return.

The most common reasons for these notices were taxes paid in the year a home was sold, issues with the name the home is titled in, or errors in reporting the Property Index Number.

Income Limits for Some IL Credits
The property tax credit is available to taxpayers who have adjusted gross income under $500,000 on a joint tax return, or $250,000 for all other filing statuses.

The same limitations apply to personal exemptions, and the K-12 education expense credit. Taxpayers with income over the thresholds above no longer qualify for these deductions or credits.

Increased Estimated Tax Threshold
Illinois increased the estimated tax payment threshold for individual taxpayers from $500 to $1,000 for tax years ending on or after December 31, 2019. This means that taxpayers who project they will owe less than $1,000 when they file their tax returns are not required to make estimated tax payments in IL.

Tax Tidbits

IRS launched its Identity Theft Central webpage on February 3, 2020. The webpage is designed to improve online access to information on identity theft and on data security protection for taxpayers, tax professionals and businesses. The webpage can be accessed at https://www.irs.gov/identity-theft-central.

The webpage provides resources on how to report identity theft, how taxpayers can protect themselves against phishing and online scams, and more. The site offers information including a Taxpayer Guide to Identity Theft, detailing what to do if you become a victim of identity theft.

For More Info

The articles in this newsletter are intended to present general tax information. Accounting rules and tax laws are complex. Not all ideas presented may be appropriate for your specific circumstances.

For additional information, call Kagan & Associates, Ltd. at 847-392-3300 or e-mail us at Info@KaganLtd.com.