
Using the Tax Return to Determine the Real Income of the Estate



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Agenda

- **Real (Gross) versus Taxable Income**
- **The 411 on the 1040**
- **Net Resources (Available for Payment of Child Support)**
- **Summary**

Real Versus Taxable Income

- Real (Gross) Income includes all of the income a person receives during a year from any source unless explicitly tax exempt
 - ❑ Wages
 - ❑ Bonuses
 - ❑ Interest
 - ❑ Dividends
 - ❑ Alimony
 - ❑ Business Income
 - ❑ Capital Gains
 - ❑ Rental Real Estate, Royalties, Partnerships, Trusts, etc.
 - ❑ Other: Prizes/Awards, Gambling Winnings, Cancelled Debt

Real Versus Taxable Income

- Taxable Income is the amount of income after all allowable deductions or exemptions have been subtracted from the total income received.
 - Medical (HSA/FSA)
 - Retirement (401k, IRA)
 - Education (Tuition, Loan Interest)
 - Itemized/Standard Deductions
 - Exemptions

The 411 on the 1040

■ Sections of the IRS Form 1040

- ❑ Filing Status
- ❑ Exemptions
- ❑ Income
- ❑ Adjusted Gross Income
- ❑ Tax and Credits
- ❑ Other Taxes
- ❑ Payments
- ❑ Refund / Amount Owed
- ❑ Signatures

The 411 on the 1040

■ Things to Consider

□ **General**

- Age – 62, 65, 70½ trigger retirement, Social Security, & Medicare events
- Address – did they or will they move? Escrow?

□ **Filing Status**

- Changes
 - From/To Head of Household, From/To Married or Single

□ **Exemptions**

- Are dependents aging out? New dependents?

The 411 on the 1040

■ Things to Consider (cont.)

□ **Income**

- Wages (W-2)
- Interest & Dividends (Schedule B)
- Alimony Received
- Business Income (Schedule C)
- Capital Gains (Schedule D)
- IRA & Pension Distributions (how much is left? RMD?)
- Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts (Schedule E)
- Social Security Benefits

The 411 on the 1040

■ Things to Consider (cont.)

□ The 411 on the W-2

■ Box 1 Wages, Tips, Other Compensation

- Need to see the pay stub to determine if there was a bonus

■ Box 5 Medicare Wages and Tips

□ Net of pre-tax deductions

- Retirement plans
- 401(k)
- HSA/FSA
- Insurance Premiums

The 411 on the 1040

- Things to Consider (cont.)
 - The 411 on the Schedule C
 - Add back non-cash deductions
 - Depletion (Line 12) & Depreciation (Line 13)
 - Add back personal expenses
 - e.g. Personal Residence Maid Services, Travel, Family Salaries, Charitable Contributions, Family Cell Phone Plans
 - Any Extraordinary Income
 - e.g. Sale of Assets, Lawsuit Settlements, Insurance Checks
 - Any Extraordinary Expenses
 - e.g. Lawsuit Settlements, Insurance Checks

The 411 on the 1040

- Things to Consider (cont.)
 - The 411 on the Schedule E
 - Add back non-cash deductions
 - Depreciation Expense or Depletion (Line 18)
 - Add back personal expenses
 - e.g. Personal Residence Maid Services, Travel, Family Salaries, Charitable Contributions, Family Cell Phone Plans
 - Any Extraordinary Income
 - e.g. Sale of Assets, Lawsuit Settlements, Insurance Checks
 - Any Extraordinary Expenses
 - e.g. Lawsuit Settlements, Insurance Checks

The 411 on the 1040

- Things to Consider (cont.)
 - Business Entity Type
 - C corporations pay a corporate income tax on reported income.
 - The income of S corporations is passed through to the shareholders, who pay personal income tax on it.
 - Partnership income is passed through to the partners, who pay personal income tax on it. Although income may be undistributed by the partnership, the entire tax liability is passed through to the partners.

The 411 on the 1040

- Things to Consider (cont.)
 - **Adjusted Gross Income (Deductions)**
 - HSA
 - Moving Expenses (non-recurring)
 - Self-Employed SEP, SIMPLE, and Qualified Plans
 - Penalty on Early Withdrawal of Savings (Recurring?)
 - Student Loan Interest (Balance? Separate Property?)
 - Tuition and Fees (Recurring?)

The 411 on the 1040

- Things to Consider (cont.)
 - **Tax and Credits**
 - Standard or Itemized Deductions (Schedule A)
 - Exemptions
 - Changes in the number due to children aging out
 - **Other Taxes**
 - Additional tax on IRAs (early withdrawal penalty) (Line 59)
 - Household Employment Taxes (Line 60a, Schedule H)

The 411 on the 1040

■ Things to Consider (cont.)

□ **Payments**

- Estimated Tax Payments and Amount Applied from Prior Year (Line 65)
- American Opportunity Credit (Line 68) (When ending?)

□ **Refund / Amount Owed**

- All or some of the refund to the next year (Line 77)

□ **Signatures**

- Third-party prepared?

The 411 on the 1040

- Things to Consider (cont.)
 - The 411 on the Schedule A
 - Medical and Dental Expenses (Line 4), Non-recurring?
 - Real Estate Interest & Taxes Paid (Line 9), Escrowing?
 - Gifts to Charity (Line 19)
 - Casualty and Theft Losses (Line 20), One-time?
 - Job Expenses and Certain Miscellaneous Deductions, (Line 27), Non-recurring?
 - Other Miscellaneous Deductions (Line 28), e.g. Gambling Losses – Reimbursement Claim?

Net Resources

- Sub Chapter B, FAM 154.062 Net Resources
 - Resources Include:
 - 100 Percent of **ALL** Wage and Salary Income ...
 - Interest, Dividends, and Royalty Income
 - Self-Employment Income
 - Net Rental Income (Add Back Depreciation)
 - All Other Income
 - Severance, Retirement, Pensions, Trust Income, Annuities, Capital Gains, Social Security Benefits, VA Benefits, Workers' Comp, Gifts, Spousal Maintenance, Alimony

Net Resources

- Sub Chapter B, FAM 154.062 Net Resources
 - Resources Exclude:
 - Social Security Taxes
 - Return of Principal or Capital (not income)
 - Accounts Receivable
 - Payments for Foster Care of a Child
 - Federal Income Tax based on the Single Person Rate
 - Expenses for the Cost of Health Insurance for the Obligor's Child Ordered by the Court
 - Other (Refer to Family Code for the complete list)

Summary

- To quickly Determine the Real Income from the Tax Returns involves adding back depreciation and personal expenses that were deducted from business and rental income
- Understanding the tax return and the “considerations” discussed above will allow you to address the impact of future changes in the Real Income

Summary

- Tax Documents Needed:
 - Form 1040
 - W-2's
 - Schedule C
 - Schedule D
 - Schedule E
 - Additionally, you will need to inquire as to any personal expenses that were included as deductions on Schedules D and E

Summary

(Gray cells are for data entry.)

Tax Return Summary	Line #	Husband	Wife	Totals
Form 1040				
Income (a)	22	\$ 200,000		\$ 200,000
Adjusted Gross Income Deductions	36	\$ 9,795		\$ 9,795
Adjusted Gross Income (AGI)	37	\$ 190,205	\$ -	\$ 190,205
Total Tax (d)	63	\$ 45,255		\$ 45,255
Tax Payments	74	\$ 49,506		\$ 49,506
(Refund) or Owed	(75) / 78	\$ (4,251)	\$ -	\$ (4,251)
Effective Tax Rate (d) / (a)				22.63%

W-2 Detail	Box #	Husband	Wife	Totals
Wages, Tips, Other Compensation	1		\$ 37,136	\$ 37,136
Pre-Tax Deductions (b)		\$ -	\$ 8,641	\$ 8,641
Medicare Wages and Tips	5		\$ 45,777	\$ 45,777

Adjustments	Line #	Husband	Wife	Totals
Schedule C				
Depletion and Depreciation	12 & 13	\$ -		\$ -
Personal (e.g. Travel, Family Salary, Charity, Maid, etc.)		\$ 5,000		\$ 5,000
Schedule D				
Capital Loss (also on 1040 Line 13)	21	\$ 3,000		\$ 3,000
Schedule E				
Depreciation Expense or Depletion	18	\$ 6,152		\$ 6,152
Personal (e.g. Travel, Family Salary, Charity, Maid, etc.)		\$ -		\$ -
Total				\$ 14,152

Gross Income (a) +(b) + (c)				\$ 222,793
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Thank You! Questions & Follow Up:



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