



## Federal 1040 Analysis

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The Federal 1040 Analysis can be used as a stand-alone utility, or in combination with the Paycheck Comparison. Among its main features:

- It covers the most common features of the Federal 1040 form, including itemized deductions, if desired.
- It allows you to perform either one or two calculations on the same input screen and the same printed report; if two calculations are performed, they may be alternative scenarios for the same year, or estimates for two different years.
- It automatically uses the correct tax tables, exemption amounts, and deduction limits for recent years, and automatically inflates these factors for the current and any future years.
- It automatically adjusts exemptions and deductions for persons with higher adjusted gross income who fall into the phase-out brackets for these items.

We have done our best, within the limitations of a deliberately simplified calculator, to make this system reflect the current status of the appropriate tax laws and regulations. *However, regarding the Federal 1040 Analysis calculator in particular, it is important to emphasize that this software system is not intended to provide tax advice. The calculation is far too simplified to serve that purpose. We always recommend that users review these matters with their personal tax advisors in order to confirm the results of the computer calculations, and to verify that the calculations performed are appropriate to each person's circumstance.*

Please note that if you want to use only the first column of input fields, make sure that the income items in the second column are all blank.

Also note that the Federal 1040 Analysis calculator provides the option to export data to a Microsoft Excel file named "Fed1040.XLS", which will be created in the directory where the RetirementWorks® system is installed.

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### When to Use This Calculator

The Federal 1040 Analysis is used mainly for two purposes:

1. Use it any time to do a simplified estimate of Federal Income Taxes for a current or future year.



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2. Use it in conjunction with the Paycheck Comparison, to show how a federal tax refund could be applied to tax-deferred retirement savings. The Paycheck comparison will compute how large a pre-tax contribution could be made to reduce the federal refund to zero while keeping take-home pay the same (assuming that income tax withholding is appropriately adjusted).

The screenshot shows the 'Federal 1040 Analysis' window in RetirementWorks. The interface is divided into several sections: 'Participant data', 'Adjusted Gross Income', and 'Deductions, Taxes, Credits'. The 'Participant data' section includes fields for Name, Year (2001), Tax Filing Status (Married Filing Jointly), and No. of exemptions (1). The 'Adjusted Gross Income' section lists various income sources with dollar amounts. The 'Deductions, Taxes, Credits' section includes a 'Do you want to itemize deductions?' question with radio buttons for Yes and No, and fields for Credits, Other taxes, and Federal tax payments. At the bottom, there are 'Calculate' and 'Close' buttons, a help message 'Press <F1> for Help at any time', and a version number 'Version 2.17A expires 05/31/01'.

## How to Use This Calculator

If you are using the Federal 1040 Analysis in conjunction with the Paycheck Comparison:

- Start your input using the Paycheck Comparison. Enter the current paycheck data, and any adjustments that you want to make for the alternative paycheck.



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- Click the option at the bottom left of the Paycheck Comparison screen to "Calculate new retirement contrib. by minimizing federal tax refund." This tells the system you want to connect the Paycheck Comparison and the Federal 1040 Analysis.
- Click the "1040 Input" button in the bottom right section of the Paycheck Comparison; this will automatically open up the Federal 1040 input screen (above), and prefill some of the values for you.
- Complete the 1040 input.
- Return to the Paycheck Comparison screen and calculate/preview/print the results. The second column on the Federal 1040 screen will be automatically filled in for you, showing the changes that have been calculated.
- If you want to illustrate changes in the second column of the Federal 1040, you can make them now (e.g., if you are anticipating a change in the number of exemptions, filing status, or any other item). If you do make such changes, you should go back to the Paycheck Comparison screen afterwards and recalculate.

If you are using the Federal 1040 Analysis as a stand-alone calculation, only the first column is used. Start at the top of the input screen and work your way down. If you want to itemize deductions, select that option, and click the "Show Deduction Detail" button to input the particulars. Remember that you may press the <F1> key at any time during the input process to obtain on-line Help.

When you have finished entering all the required information, use the "Calculate" button to display the refund or amount of tax owed, or use the "Print" menu to print or preview the results or send them to a Microsoft Excel file named "Fed1040.XLS".

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### Detailed Input Instructions

#### **Name**

Enter the taxpayer's name as it should appear on the printed report.

#### **Year**

By default, the current year appears in both columns. You may change one or both of these. You may use different years, or the same year, in each column. You may also use the current



year, a future year, or a past year. The system does not contain tax tables for years prior to 1998.

### **Tax Filing Status**

Enter the correct filing status from the dropdown list. You may use a different filing status in each column if a change in status is contemplated.

The IRS offers four filing statuses: Single, Married Filing Jointly, Married Filing Separately, and Head of Household. The Head of Household status is for unmarried persons who pay over half the cost of keeping up a home for a dependent child, parent, or other qualifying person. A qualifying widow or widower, which includes those whose spouse has recently died and whose household includes a dependent child should select "Married Filing Jointly".

### **No. of exemptions (for self, for spouse if filing jointly, for dependents)**

Enter the number of exemptions you expect to claim on your 1040 form. You may use a different number in each column if a change in status is contemplated.

### **Taxable income from this employer**

Enter the taxable income you expect to receive from your employer for the year in question.

Taxable income is normally gross income less any pre-tax contributions to qualified retirement plans (401(k), 403(b), 457, SEP, certain state retirement systems, etc.) and less any pre-tax contribution to Section 125 (cafeteria) plans. Do not subtract out contributions for Social Security, or for federal, state or local taxes, or for any other items taken out of your pay. If you receive tips or any other kind of supplementary income from your employment, you should include these items either here or in the next field, "Taxable income from other employers (incl. spouse's, if joint)".

### **Taxable income from other employers (incl. spouse's, if joint)**

Enter the taxable income you expect to receive from any other employer during the year in question. If you are filing jointly, and your spouse has taxable income, it would normally go in this field.



## **Taxable interest and dividends**

Enter the total taxable dividend and interest income you expect to receive during the year in question. If you are filing jointly, include your spouse's dividend and interest income.

Starting in 2003, separate inputs are provided for dividends from stocks (and stock mutual funds) as opposed to other kinds of taxable interest and dividends. This is because, for years 2003 through 2008, stock dividends receive the same treatment as long-term capital gains.

Do NOT include tax-exempt interest (e.g. from municipal bonds).

## **Refunds of state & local taxes**

Enter the total of any state or local income tax refunds you have received or expect to receive in the year in question. (Since state and local taxes are deductible when paid, refunds of such taxes are themselves taxable.)

## **Short-term capital gains/losses**

Enter the total taxable short-term capital gains you expect to receive in the year in question. If you are filing jointly, include your spouse's gains. Enter a negative number if the net amount is a loss.

Include gains on individual investments as well as capital gains distributions from mutual funds. Do NOT include any proceeds that represent a return of your original investment, however, since these amounts are not taxable. Also, do NOT include any long-term capital gains (generally, gains on investments held more than a year, although this definition is changed fairly frequently by Congress); long term gains are entered in the next field because they are taxed differently.

Short-term gains and losses will be treated by the system like ordinary income, which is usually correct. This treatment, however, might not accurately represent your specific tax situation.

## **Long-term capital gains/losses**

Enter the total taxable long-term capital gains you expect to receive in the year in question. If you are filing jointly, include your spouse's gains. Enter a negative number if the net amount is a loss. To be conservative, net long-term losses will be ignored in the calculations, even though



in some real-life situations they could partly offset other income.

Include gains on individual investments as well as capital gains distributions from mutual funds. Do NOT include any proceeds that represent a return of your original investment, however, since these amounts are not taxable. If you have sold your principal residence for a gain, and are claiming the once-in-a-lifetime limited exemption for such sales, you will need to subtract out the exemption amount. Also, do NOT include any short-term capital gains (generally gains on investments held less than a year). Short-term gains are entered in the previous field because they are taxed differently.

Taxation of capital gains can be complex, and these complexities are not represented in this system. At present, all net long-term gains (but not losses) are assumed to be taxed at 20%. This treatment might not accurately reflect your particular tax situation.

### **Other income (business, farm, rental, alimony, pension, etc.)**

Enter the net taxable income from other miscellaneous sources that you expect to receive in the year in question. If you are filing jointly, include your spouse's miscellaneous income. If the net amount of the "other" items is a loss, enter a negative number.

Other income includes gains and losses from farms, businesses (i.e. sole proprietorships and partnerships), rental properties (net of expenses), royalties, alimony received, pensions, IRA distributions, annuity payments received (only the taxable portion, if you previously contributed after-tax money of your own), unemployment compensation, Social Security benefits, gains from surrendered life insurance policies, and any other taxable income not previously included. Consult your personal tax advisor if you are uncertain what income to include.

### **Adjustments (IRA deduction, student loan int., MSA, etc.)**

Enter the total adjustments to adjusted gross income from all sources that you expect will pertain to the year in question. If you are filing jointly, include your spouse's adjustments.

In general, adjustments to gross income are deductions that you might qualify for regardless of whether you itemize or not. These deductions or adjustments include IRA contributions, student loan interest (if you qualify), contributions to Medical Savings Accounts, moving expenses related to your employment (if you qualify), a portion of health insurance you paid for through self-employment, certain contributions to Keogh or SEP or SIMPLE plans if you or your spouse is self-employed, penalties on early withdrawals of savings, and alimony paid. As usual, there are special rules that apply to these items, and you should consult your personal tax advisor to see whether, and to what extent, you qualify to claim them.



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## Do you want to itemize deductions?

Click the "Yes" button if you want to itemize deductions for the year in question. Otherwise click "No". If you click the "Yes" button, the Tax Deduction Detail pop-up screen will appear. You can also summon this screen by clicking the "Show Deduction Detail" button.

The screenshot shows the RetirementWorks software interface. The main window is titled "RetirementWorks®" and has a menu bar with "File", "Print", "Calculations", "Windows", and "Help". The active window is "Federal 1040 Analysis".

Under the "Participant data" section, there are fields for "Name:" (empty), "Year:" (2001), "Tax Filing Status:" (Married Filing Jointly), and "Single" (selected). There are also buttons for "Copy Data from Left" and "Clear Data on Right".

The "Tax Deduction Detail" pop-up screen is open, showing a table of deductions:

Deduction Category	Amount	Amount
Number of credits for over age 65 and blindness (incl. spouse if joint):	<input type="checkbox"/>	<input type="checkbox"/>
Medical and dental expenses (total):	\$ <input type="text"/>	\$ <input type="text"/>
State & local income taxes:	\$ <input type="text"/>	\$ <input type="text"/>
Real estate and other taxes:	\$ <input type="text"/>	\$ <input type="text"/>
Deductible interest (home mortgages, investment interest):	\$ <input type="text"/>	\$ <input type="text"/>
Charitable gifts:	\$ <input type="text"/>	\$ <input type="text"/>
Other deductions (investment expenses, casualty losses, moving expenses, tax preparation fees, etc.):	\$ <input type="text"/>	\$ <input type="text"/>
Credits (child/elder care, adoption, educ., earned inc., etc.):	<input type="text"/>	\$ <input type="text"/>
Other taxes (self-employment, alternative minimum tax, etc.):	<input type="text"/>	\$ <input type="text"/>
Federal tax payments (withholdings, estimated taxes, etc.):	<input type="text"/>	\$ <input type="text"/>

At the bottom of the pop-up screen, there are "Calculate" and "Close" buttons, and a note: "Press <F1> for Help at any time". The version information "Version 2.20A expires 08/01/01" is also visible.

If you itemize deductions you may be able to deduct a higher amount. If, however, you elect to itemize deductions, but your deductions turn out to be less than the standard deduction, the system will automatically use the standard deduction instead. A footnote to the report will indicate that this was done. The standard deduction differs depending on your tax filing status and on whether you (and your spouse, if filing jointly) are over age 65 or are blind.



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Deductions may also be reduced, according to formula, if your adjusted gross income exceeds certain limits that change annually and that differ according to tax filing status. The system will apply these reductions automatically, if they apply, so that the deduction amount reported on the output may differ from the total of the amounts you entered.

### **Number of credits for over age 65 and blindness (incl. spouse if joint)**

For most people, this number is zero. However, you are entitled to one credit if you are age 65 or older. You are also entitled to a credit if you are totally or partially blind (vision worse than 20/200 or field of vision less than 20 degrees). If you are both over 65 and blind, you are entitled to a total of two credits. If you are married and filing jointly, you are entitled to an extra credit if your spouse fulfills one of these conditions, or an extra two credits if he/she is both over 65 and blind. This number can never be more than "4".

### **Medical and dental expenses (total)**

Enter the total of your potentially deductible medical and dental expenses you and your dependents have incurred. If you are filing jointly, include your spouse's expenses. The amount that can actually be deducted is the amount that exceeds 7.5% of your adjusted gross income. The system will do this calculation for you. Refer to the on-line help for more information.

### **State and local income taxes**

Enter the total state and local income taxes you expect to pay in the year in question. If you are married and filing jointly, include your spouse's taxes.

Include here any income taxes being withheld from your pay, as well as any estimated or actual taxes you are paying directly during the year in question. If you paid taxes in one year because they were owed for a previous year, include the taxes in the year that you paid them, not the year they were owed. Do NOT include any taxes other than state and local income taxes (e.g. Social Security or Medicare taxes, federal income taxes, real estate taxes, excise taxes, sales taxes, etc.).

### **Real estate and other taxes**

Enter the total deductible taxes, other than state and local income taxes, you expect to pay in the year in question. If you are married and filing jointly, include your spouse's taxes.

If you own a home or other property, you can generally deduct the real estate taxes on



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that property. If your state or locality imposes a personal property tax, it is deductible if it is based on value alone. If you paid taxes to a foreign country or a U.S. possession, you may deduct them here, or you may be better off taking a foreign tax credit. Consult your personal tax advisor for details.

### **Deductible interest (home mortgages, investment interest)**

Enter the total deductible interest you expect to pay in the year in question. If you are married and filing jointly, include your spouse's interest payments.

Most kinds of interest payments are NOT deductible. The two main exceptions are home mortgage interest and investment interest. Home mortgage interest includes first and second mortgages and home equity loans, but such loans taken out after the initial property purchase may be limited or ineligible. Points paid on mortgages are generally deductible if spread out over the life of the loan. Investment interest is interest paid on money borrowed to buy property held for investment. It does not apply to money borrowed to invest in tax-exempt securities, or to interest allocable to passive activities. Consult your personal tax advisor for details.

### **Charitable gifts**

Enter the total deductible value of gifts you expect to make during the year in question. If you are married and filing jointly, include your spouse's gifts.

In general, only gifts to qualified not-for-profit organizations, or to public schools or governments (if given solely for public purposes) are deductible. Gifts may be in cash or property, or in the form of out-of-pocket expenses.

There may be limits on charitable deductions, especially on gifts of property. Consult your personal tax advisor for help.

### **Other deductions (investment expenses, casualty losses, moving expenses, tax preparation fees, etc.)**

Enter the total of your potential deductible miscellaneous expenses you and your dependents have paid or expect to pay during the year in question. If you are married and filing jointly, include your spouse's expenses. In most cases, the amount actually deductible is the amount that exceeds 2% of your adjusted gross income. The system will perform this calculation for you.

The miscellaneous deductions you should include are casualty and theft losses, certain job-related expenses, employment-related expenses that are not being reimbursed by your employer, tax preparation fees, expenses and losses incurred to produce or collect taxable income, gambling losses to the extent that you are reporting gambling winnings



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as income, federal estate taxes for income in respect of a decedent, and other items. There are very detailed rules about these miscellaneous deductions, and you should consult your personal tax advisor for help in determining whether you qualify for any of them.

### **Credits (child/elder care, adoption, education, earned income, etc.)**

Enter the total of any tax credits to which you are entitled. If you are married and filing jointly, include your spouse's credits.

Applicable tax credits include credit for child and dependent care expenses, credit for the elderly or disabled, the child tax credit, education credits, the adoption credit, the foreign tax credit, and even more specialized credits. All of these credits have their own eligibility criteria and their own methods of calculation and limitation. Consult your personal tax advisor for help in determining whether you qualify for any of these credits, and, if so, to what extent. Otherwise, enter "zero" in these fields.

For the years 2002-2006, Congress has authorized a special credit for up to 50% of elective deferrals to qualified retirement plans. If you are calculating the Federal 1040 in connection with the Paycheck Comparison for these years, the system will automatically calculate the elective deferral credit and enter it into the gray box above this field. If you are not using the Federal 1040 form in this way, you need to enter the credit amount manually in this field, if you are eligible for it, along with any other tax credits.

### **Other taxes (self-employment, alternative minimum tax, etc.)**

Enter the total of any miscellaneous additional federal taxes you have to pay during the year in question. If you are married and filing jointly, include your spouse's taxes.

Common additional taxes include the Alternative Minimum Tax (which can apply under many circumstances, but does not apply to the typical wage-earner), Social Security and Medicare taxes on unreported tip income or on self-employment, taxes on certain kinds of distributions from retirement plans (including IRAs) and Medical Savings Accounts, Advanced Earned Income Credit payments, and household employment taxes. For a majority of people, none of these extra taxes apply. Consult your personal tax advisor to determine if any of these extra taxes apply to you, and to estimate what they amount to.



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**Federal tax payments (withholdings, estimated taxes, etc.)**

Enter the total of any payments made for the tax year, including taxes withheld from your paycheck, estimated tax payments for the year, and excess taxes from the previous year left with the government to cover taxes for the year in question. If you are married filing jointly, include any taxes paid by your spouse or withheld from your spouse's pay.

**Calculate**

When you have finished entering all the required information, click the "Calculate" button to see a quick calculation of results. To preview or print a complete report, use the "Print" option on the menu bar.