

TaxMode App

Computation Overview

TaxMode is an income tax computation program with diverse functionality for analysis and planning. It is a customizable and can be used in a variety of ways. You can use it for a quick tax calculation for a single income amount or get comprehensive tax computations based on multiple entries as a situation may call for. Its design is simple and intuitive.

The automated comparison options can help you quickly analyze the impact on one or more changes in data in a specific case. A comparison of processing a case data for one year vs. another year can also be done with a single click.

Tax Computations

This version includes integrated modules for 2017, 2016 and 2015 tax years. It has been updated for applicable tax law changes and computations as referenced in the IRS tax forms for the 2016 tax year or later if they have been released. Some key calculations included in this version are:

- Qualified dividend and capital tax rates
- Phase out of itemized deductions
- Phase out of personal exemptions
- Medical deduction limitation
- Charitable deduction limitation
- Student loan interest deduction limitation

Tax calculations are performed automatically based on your data. Among the taxes this program computes are-

- Regular income tax
- Income tax based on qualified dividends and capital gain worksheet
- Self-employment taxes
- Alternative minimum tax
- Lump-sum distribution tax
- Net Investment Income Tax
- Additional Medicare Tax
- Earned Income Credit (EIC)
- FICA taxes

Regular income Tax

Based on taxable income, the regular tax is computed using the Tax Tables or Tax Rate Schedules based on the Filing status for the year of tax computations. Tax deductions are taken into account to the extent they exceed standard deductions unless the program is instructed to use the itemized deductions even if they are lower.

Income tax based on qualified dividends and capital gain worksheet

The Qualified Dividend & Capital Gain worksheet is used to calculate the Federal Income Tax when either of these two items are present and as per instruction on Form 1040 and schedule D.

Self-employment tax

Computations for Self-employment tax are performed when active partnership income, farm income, business or other self-employment income values are entered. The computations

follow the steps described on for 1040 SE. Self-employment tax is computed for the taxpayer and spouse individually when applicable.

Alternative minimum tax

These computations are performed in accordance with Form 6251 for the year of tax computations. For an advance tax year for which this form has not yet published by IRS the latest published form is used. Applicability of AMT is tested after each change in value or the entry of a new value of data. Each of Part of the form I, II & III are tested for applicability based on values entered. An overall adjustment can also be made for the calculation of the Alternative Minimum Taxable Income (item 89)

Lump-sum Distribution tax

This tax is computed on the capital gain and the ordinary income portion of a lump-sum distribution subject to 10 year averaging method using Form 4972. This tax is applicable for Qualified Plans or participants born before January 2, 1937.

Earned Income Credit (EIC)

This credit is calculated automatically based on the information entered. The program assumes the taxpayer and spouse (if applicable) are between the age of 25 and 65. The accuracy of this computation can be improved by providing additional information on the following items if applicable-

- Indicate if either the taxpayer or the spouse is under 25 years of age or is over 65 years old.
- Number of dependent children that are qualified for EIC.
- If the taxpayer is claimed as a dependent on someone else's tax return.
- If taxpayer or spouse can be claimed as a qualified child on another tax return.
- If either spouse has been in the US for under 6 months or does not have Social Security number.

Net Investment Income Tax

This tax is computed automatically when applicable. NIIT is shown as an additional tax on the 1040 form based on computations that follow the form 8960.

Additional Medicare Tax

This healthcare related tax is computed automatically when applicable. Its computations follow form 8959 and shown as an additional tax on the 1040 form.

Deductibility limitation

A deductibility check is applied for the following items. If the amounts entered is more than the deductible amount the deduction is reduced by the allowable amount.

- Medical and dental expense is allowed for amounts in excess of 7.5% or 10% of AGI depending on the tax year.
- Investment interest is limited to investment income as instructed on form 4952
- Charitable contributions to 50%, 30% or 20% limitation depending on the qualification of the gift and the type of charity it is given to.
- The sum of unreimbursed business expense, Job search expense, Tax preparation fees and other investment expenses is allowed for amounts in excess of 2% of AGI.
- Casualty & theft losses are allowed for amounts in excess of 10% of AGI.
- Depending on the tax year the student loan interest deduction is limited to \$2,500 for AGI up to \$60,000 (\$120,000 if married filing Joint Return). It is prorated down for AGI up to \$75,000 (\$150,000 if married filing Joint Return). No deduction is allowed after this higher limit.

- Depending on the tax year the tuition and fees deduction is limited to \$4,000 max for income up to \$65,000 (\$130,000 for joint filers), \$2,000 max for income over \$65,000 up to \$80,000 (\$130,000 to \$160,000 for joint filers), none for income over \$80,000 (\$160,000 for joint filers).

Details of tax computations

You can display the details of each tax computation by clicking on the tax amount or its caption shown on the result screen. These details are shown as lines of information filled in for the corresponding IRS tax forms. Following IRS Forms are programmed in varying degrees of details subject to data availability-

- Form 1040
- Form 1040 Schedule A (Itemized deductions)
- Form 1040 D (Capital gain/loss schedule)
- Form 1040 SE (Self-employment tax)
- Form 4952 (Investment interest limitations)
- Form 4972 (Lump-sum distribution tax form)
- Form 6251 (Alternative minimum tax)
- Form 8917 (Tuition and fees limitations)
- Form 8959 (Additional Medicare Tax)
- Form 8960 (Net Investment Income Tax)
- Qualified dividends and capital gains worksheet
- Earned income credit qualification worksheet
- Earned income credit computation worksheet

Income & Tax Statement

Two formats of Income & Tax Statement are available to display and/or print: main and detailed. The Main report shows the input items entered along with each tax amount computed. Detailed report supplements the Main report with details of each tax form applied in that case to arrive at the tax results.

Printing reports

Reports provided on the result screen can be emailed and then printed. The following reports can be printed-

- Main report
- Full report
- Details of an item shown on the result screen
- Data corresponding to IRS tax forms involved in current tax calculations

Comparing alternative scenarios

While TaxMode can be used as a standalone tax calculator it can also be switched to an advanced mode requiring comparative analysis. Two comparative modes are available to provide you with tax result comparisons from a static point of reference or a continuous (dynamic) comparison each time you make an entry.

Comparing tax comps in this year versus the next

This tax calculator contains tax computation laws for a three year span. Tax results can be displayed for the current and previous year and can be switched from one to the other year to

providing you with the ability to gauge the impact of taking an income or deduction item this year versus next year.