1970

An Analysis of the Individual Income Tax Return, Form 1040 for 1970: Summary of Major Changes

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AN ANALYSIS OF THE INDIVIDUAL INCOME TAX RETURN, FORM 1040, FOR 1970

SUMMARY OF MAJOR CHANGES

JOHN F. BARRETT

Internal Revenue Agent
Internal Revenue Service, Richmond, Va.

Form 1040 for 1970 has been completely changed and reworked into a new two-page return that will replace the one-page form with which everyone is familiar.

The basic reasons for the changes in the basic form 1040 are (1) to allow the taxpayer proper space to place many additional items, (2) to provide for summaries of income items which were not on the 1969 return, (3) to make the tax computation a part of the basic form and (4) to incorporate several changes made in the Tax Reform Act of 1969.

Underlying the tax computations that will be made by many taxpayers this year is a brand new format for the optional tax tables. Instead of the three basic optional tax tables used prior to 1970, onc finds that there are now fifteen tables, one complete table for taxpayers with from one to fifteen exemptions and whose Adjusted Gross Income is under $10,000.

Further, the optional tax tables are set up to compute the lowest tax for individuals with Adjusted Gross Income under $10,000, regardless of their filing status, and will include considerations of the new low income allowance.

Even though the basic form 1040 is a two-page form, it is still possible for a taxpayer to file a complete return on the first page of the form, providing:

(1) his income is less than $10,000 and it results from wages and salaries and not more than $100 of dividends or interest;

(2) he does not elect to itemize his deductions for the year, nor does he avail himself of the benefits of the investment credit, the retirement income credit or the foreign tax credit; and

(3) he does not claim any sick pay, employee business expense, payments to self-employed retirement plans or have moving expenses.

Under a new ruling, and as a part of the Tax Reform Act of 1969, the Internal Revenue Service will compute an individual's 1970 income tax, providing:

(1) his adjusted gross income is $20,000 or less;

(2) he elects to use the standard deduction instead of itemizing his personal deductions, and

(3) the taxpayers' income consists only of wages and salaries, tips, pensions, annuities, dividends and interest.

One great help to the retired person is the fact that this year the IRS will compute the retirement income credit for a taxpayer. The taxpayer need only complete lines 2 and 5 on his Schedule R (Retirement Income Credit Computation) and enter "RIC" on line 22 of page one of Form 1040. If the return is a joint return, however, the spouse's income should be shown separately adjacent to line 18 on page one of Form 1040. Once this information is supplied, then the IRS will compute the correct credit allowable, and bill the taxpayer if tax is due or refund any overpayment.

Turning over the basic form 1040 to page two, the taxpayer will find a completely renovated grouping of information. At the immediate top of the page is a question relating to the taxpayer's interest in any holdings in a foreign country. If this question will result in an affirmative answer the taxpayer must complete and attach to the return form 4683. It is most important that this question be answered on all tax returns.

Page two of the basic form 1040 consists of seven parts.

Part I covers the required information relating to dependents other than those who resided with the taxpayer and is the same as line 9 on last year's return.

Part II is for income other than wages, dividends and interest. This totaling of the individual items of other income was omitted from the 1969 return and the totals were taken in conglomerate to line 15 on last year's return. Lack of such a sub-totaling of other income did lead to omission or errors in carryover from the various subsidiary schedules to the basic form 1040.

Included in Part II is line 39—Miscellaneous Income and is to be used for various reporting of items. Miscellaneous income was reported on Schedule E last year, however, as we shall see later, the income reported on Schedule E as Supplemental Income is limited to Partnerships, Estates and Sub Chapter S Corporate distributions. Line 39 is to be used where taxpayer has no other capital transactions other than dividends from mutual funds—list as 50% of capital gain dividends. Refunds of state income taxes, where applicable, are reported here. If you have a net operating loss from a prior year that is carried over to 1970, it is listed as a minus figure on line 39 (attach computation to the return). Alimony, prizes, awards as well as recoveries of bad debts and other items that reduced your income in prior years are also to be reported here.

Part III, adjustments to income, refers to sick pay, moving expenses and employee's business expenses, as well as payments as self-employed persons to a retirement plan are deducted here. It is to be noted that in this section, as well as in Part II, the required form that should be included to substantiate the item is listed alongside the item itself.

Part IV of page 2 of Form 1040 replaced the Schedule T of 1969, (which has been eliminated), and is for the tax computation. A tax computation is required where a taxpayer itemizes his deductions or his adjusted gross income is $10,000 or more.

The various credits allowable to individual taxpayers are to be reported in Part V.

Part VI lists the various other taxes that are to be reported by the taxpayer, and includes the new minimum tax. It should be noted that Form 4625, Computation of Minimum Tax, should be completed and attached to the return if the taxpayer has tax preference items in excess of $15,000, even though there is no minimum tax due by the taxpayer. (Taxpayer has a $30,000 exclusion plus the tax assessed.)

Other payments, including excess FICA taxes paid in excess of $374.40 as a result of having more than one employer, are listed here.

A majority of the subsidiary schedules retain their format as in 1969, and they are, for the most part, printed back to back this year to avoid confusing the instructions as was possible last year.

Schedules A & B:

Schedule A (Itemized Deductions)—New on this form is a summary at the bottom of the page of all of the various itemized deductions, which, it is hoped, will eliminate errors on the part of taxpayers who forgot to add in all of their itemized deductions from this page last year. This year the total from Schedule A is carried to line 47, page 2 of Form 1040, instead of to the eliminated Schedule T.

Schedule B (Interest and Dividends)—This schedule is to be filed only if the taxpayer has either interest or dividends that are in excess of $100. The dividend exclusion is not computed on Schedule B, but is taken on the face of Form 1040.

Schedule C (Business Income) remains largely unchanged from 1969, except for losses on business property from fire, storm or other casualty, or from thefts. Such losses, under the Tax Reform Art of 1969, are no longer deductible on Schedule C, but must be carried to Part VII of Schedule D.

Schedule D for 1970 has been greatly expanded and changed to conform with the Tax Reform Act of 1969. This year's Schedule D consists of seven parts plus one page for computations, thus making it a four-page schedule.

The alternative tax computation, as a result of new limitations placed on the amount of gains that will be taxed at an effective rate of 25%, has been greatly enlarged to provide for the three tier computation that may be necessary, depending on the type of gains reported.

Last year gains from Section 1245 and 1250 property were both computed together and reported together. This year gains from the two types of assets have been separated into two parts, with Part V covering gains from Section 1245 property and Part VI pertaining to Section 1250 property.

Gains on the sale or disposition of new Section 1251 property held for more than six months, used in farming, where farm losses offset non-farm income, are reflected on Schedule D. First the taxpayer must determine if there is any ordinary income gain in this farm recapture property. This will be reported as ordinary income first, prior to computing any possible Section 1231 gain.

Gain from dispositions of farm land under new Section 1252 is also reflected on Schedule D. Such gain may be subject also to ordinary income treatment as well as capital gains.

A new part on the 1970 Schedule D is Part VII (Sales and Exchanges of Property Used in Trade or Business and Involuntary Conversions). This new section has been added to comply with the part of the Tax Reform Act of 1969 stating that gains and losses from casualty or theft losses of any property used in the trade or business or any capital asset held for more than six months for the production of any income must be netted.

Schedule E has been changed by deleting the reporting of miscellaneous income from this Schedule and reporting it on line 39 of page two of the basic form 1040. Totals from Schedule E are now from annuities, rents, Partnerships, Estates and Sub-chapter S corporations.

Schedule R for 1970 has a new look as the format has been changed to place the alternative computation of the retirement income credit side by side with the regular computation.

Schedule F (Farmers) is nearly identical with 1969, with the exception of losses from casualties and thefts which are now reported in Part VII of Schedule D.

These, then, are the major changes in the basic forms for all individual taxpayers. Hopefully, they will result in making it possible for individuals to fill out their returns with more ease and with less difficulty.