

# Finding Hidden Tax Cuts

**Dear Friend,**

A few years ago, the IRS stated that it had over 4.8 billion dollars in “unclaimed revenue” – money that taxpayers have overpaid. With so many complex tax codes and piles of documentation to sort through, it's no wonder so many people end up overpaying. Don't be one of those people this year. Did you know that finding hidden tax cuts could have more to do with organization than your knowledge of tax laws?

For my Client Appreciation Program this month, I am providing you with a simple guide for assessing and preparing your tax returns. Whether you work through them alone, or seek out the advice of a tax professional, the information provided here will help you get started on the right foot. The tips enclosed here could be exactly what you need to make the jump toward filing online, seeking out the advice of a tax pro, or discovering you qualify for a home office deduction.

On the back is a list that can act as your personal guide to compiling and organizing your tax-related documents. It can save you time, as well as remind you which tax documents you've gathered throughout the year. So get organized and get started, because you might be just a bit of paperwork away from a refund!

Sincerely,

Oh, by the way™... if you know of someone who would appreciate the level of service I provide, please call me with their name and business number and I will be happy to follow up and take great care of them.

# A Less Taxing Tax Season

Save time and money on your taxes this year by getting organized.

**Spending** an intimate evening at home with your paperwork and a calculator? The IRS estimates that it takes the average taxpayer over 13 hours to do their taxes. If this conjures up mental images of you barricaded in your home office, fighting off auditors with pencil and paper, have no fear. While it might not be your idea of fun, having your papers in order and a few deductions in mind can help make this tax season a little bit smoother, and a lot more rewarding.

## Make a List!

If you've got a mortgage, home business, or a complicated medical situation, you can often find financial rewards in itemizing your deductions. Areas where you can benefit? Medical and dental expenses, charitable donations, education and loan expenses, disaster and theft expenses, and tax return preparation fees.

## Home Office Deductions

In 1999, the IRS relaxed a bit on the rules about using a home office as a tax deduction. Nowadays, even if you don't have a fixed location of business (for example: a plumber who makes house calls), but you use a space in your home for administrative or management purposes, you may be able to qualify for a deduction.

## Tax-free and Tax-deferred Dollars

Many companies offer their employees benefits like flex spending accounts, which allow you to elect an amount of money to be taken out of each paycheck for certain expenses, such as medical or childcare costs. The advantage is that money put into this account isn't available to the IRS, so there's no income tax, no social security tax and—in most states—no state income tax.

If your employer offers a 401(k) program, putting as much as the government allows into your 401(k) might be more affordable than you think. Because 401(k) contributions are taken out pre-tax, by maximizing the amount of money you contribute to your 401(k) you're reducing your taxable income and saving money for your retirement at the same time.

## File Electronically

If you're expecting a refund, your best bet is to submit your taxes electronically. The IRS processes electronic returns much faster than paper returns, meaning that you'll see your refund check three to six weeks earlier than you would have under the traditional mail route. Electronic submissions also have far fewer errors than paper returns, protecting you from penalties that arise from incorrect returns.

## Get Professional Help

When things get really complicated, ask for assistance from a professional—if you don't know one, ask a friend or family member for a referral. You might even want to consider doing your taxes first, and then paying a small fee to have a professional review them, just for peace of mind. If you do choose this route, remember, the accounting fees for tax preparation services are tax deductible!

## Ten Common Tax Return Problems

1. Social security number was incorrect, missing or didn't match name
2. Required documentation (W-2s, etc.) was not attached
3. Return was not signed
4. Filing status was incorrect
5. There were mathematical errors
6. Forms and schedules were incorrect or missing
7. Standard deduction was used when itemizing would have been more advantageous
8. Social Security taxable benefits worksheet was not completed
9. Failure to claim credits (child tax credit, earned income credit, etc.) or figuring credits incorrectly
10. Income items were omitted

# Make Tax Season Pain-Free...Organize!

For a pain-free tax season, organize your documents. You can save money and get the most out of your time (or a tax preparer's) if you begin with your documents sorted.

Beginning in January, keep tax-related mail (like the most common ones, listed below) in a file. Collect your receipts from the previous year and gather your investment information. Keep these documents well-sorted and you or your tax preparer will be thankful for it.

## W-2s

You'll need one from each employer you worked for over the past year.

## 1099-B

You'll receive one from your broker or mutual fund company if you sold stocks, bonds or mutual funds during the year. In addition, you will need to know the original purchase date and purchase price for the sold stocks, bonds or mutual funds.

## 1099-DIV

These forms report the dividends that individual stocks in your portfolio earned, and the dividends and capital gains distributed from your mutual funds.

## 1099-G

You'll be sent this form if you received a refund of state or local taxes last year.

## 1099-INT

Your bank will send you this form if you earned more than \$10 in interest on a bank account or certificate of deposit last year, or if you cashed in savings bonds during the year.

## 1099-MISC

If you were self-employed and were paid \$600 or more, you'll receive a 1099-MISC form from the person or company for whom you worked.

## 1099-R

1099-R forms are distributed to individuals who received a pension or distribution from an IRA or retirement plan, converted a traditional IRA to a Roth IRA, or rolled over money from a 401(k) to an IRA.

## Childcare records

If you paid a baby-sitter or day care center, you'll need the name, address, amount paid and Social Security number for each provider.

## Medical expense records

If your medical expenses were greater than 7.5% of your adjusted gross income and you itemize your deductions, collect all your receipts and cancelled checks to see if you qualify for a deduction.

## Mortgage/closing documents

In most cases, money spent on mortgage interest, points (sometimes called "loan origination fees"), real estate taxes and prepayment penalties qualify for tax deductions. When you buy, sell, or refinance a home, collect all related records and store them in a file.

## Home improvement documents

Keep your receipts and records for home improvements. While in most cases these cannot be deducted each year, they can be used to reduce your taxable gain when you eventually sell your home.

## Proof of charitable contributions

For donations of \$250 or less, gather your cancelled checks or receipts. For donations greater than \$250, you'll need a written acknowledgement from the organization to receive a deduction. As for Salvation Army donations, ask them to issue a list of thrift shop values for the donated items when you drop them off.

## Receipts for non-reimbursed business expenses

Examples of such items are money spent on uniforms, travel, business-required education, or dues that are not reimbursed by your employer.

## Self-employment income/expenses documentation

Gather and organize your receipts, or if you track such expenses on your computer, print out a year-end report.