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August 2002 - How Do I Change Payroll Withholding at Work When I Buy A Home?

Recently I was asked by a client buying a home if she could change her payroll withholding at work to reflect the income tax reduction she will enjoy as a homeowner. Of course, she was also interested in having more money left in each paycheck to help make the mortgage payment. Her name and other specific details will remain confidential, but I thank her for asking a question that many others will be interested in also. Here are my guidelines for changing your payroll withholdings when buying a home, or for other large itemized deductions you may have:

1. Refer to the itemized deduction list at the end of this article. I would be happy to send you this list by e-mail or postal mail in a worksheet format in larger print and with space for you to make personal notes.
2. Estimate the items and amounts on this worksheet that apply to you. If this gets confusing, please find qualified help.
3. You will only have a partial year for mortgage interest and property tax deductions in the year you purchase a home, so be careful when estimating these items.
4. Consider the notes in the itemized deduction list about reducing medical expenses by 7.5% of income and employee business and other "miscellaneous" expenses by 2% of income. Be sure to do this. By the way, there are ways to reclaim the lost 7.5% and 2% of income if you have a business (even part-time). The tax savings can amount to hundreds (sometimes thousands) of dollars, so if you're interested in learning more about how to do this, please let contact me.
5. Now total the list. The first \$4,700 matches the standard deduction you were getting anyway in 2002 as a single person, so subtract \$4,700 from the total (more if you are married or a head of household). The difference is the amount that is actually going to save you taxes. Each withholding allowance is worth \$3,000, so divide by \$3,000. The answer is how many additional withholding allowances you are now going to be able to claim. You will probably get a fraction, so you can decide whether to round up or down. Rounding up will give you a bigger paycheck but may leaving you with a small balance due on your tax return, rounding down will give you a smaller paycheck now, but should leave you with a small refund on your tax return.
6. If you are going to have new sources of income besides wages from your primary job this year, (even if it's just a second job) please contact me because there are additional steps to consider.
7. Fill out a new W-4 form at work to change the withholding allowances you are claiming.

I hope you have fun in your search for a home. You may want to consider living closer to work to reduce your commuting time and expense. Often, even if home prices are higher there, you may find you save more in commuting expense. Remember that most of your monthly home payments are tax deductible, but none of your commuting expense is.

Important Note!

The information in this article is intended to inform you of some of the opportunities provided in the tax laws. It is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional! Please call or e-mail me (dougbeecher@yahoo.com) if you are not my client and would like a free initial 30-minute consultation to discuss your personal situation and how the tax laws might benefit you.

If you have a question you'd like to have answered in a future article, please contact me.

ITEMIZED DEDUCTIONS PLANNING WORKSHEET

MEDICAL AND DENTAL EXPENSES

- 1 Prescription medications
- 2 Health insurance premiums including Medicare B
- 3 Qualified long-term care premiums
- 4 Enter self-employed health insurance premiums
- 5 a Insurance reimbursement
- b Medical savings account (MSA) distributions
- 6 Doctors, dentists, etc
- 7 Hospitals, clinics, etc
- 8 Lab and X-ray fees
- 9 Expenses for qualified long-term care
- 10 Eyeglasses and contacts
- 11 Medical equipment and supplies
- 12 Miles driven for medical purposes
- 13 Ambulance fees and other medical transportation costs
- 14 Lodging
- 15 Other medical and dental expenses:

NOTE: FOR PLANNING PURPOSES TOTAL EVERYTHING IN LINES 1-15, THEN SUBTRACT 7.5% OF YOUR INCOME. YOU ONLY GET TO DEDUCT THE DIFFERENCE.

TAXES

- 15a State and local income taxes withheld from pay
- 16 Real estate taxes paid on principal residence
- 17 Real estate taxes paid on additional homes or land
- 18 Auto license (Number of cars Total fees)
- 19 Other personal property taxes
- 20 Other taxes:

CASH CONTRIBUTIONS

- 21 Attach a List of Names of Organizations Donated To
And Total Amount Donated to Each Organization
- 22 Miles driven for charitable purposes
- 23 Parking fees, tolls, and local transportation for Charity
- 24 Non-cash contributions (Supplies for Volunteer
Service or List of Items Donated to Charitable
Organizations, With the Names of the Organizations)

INTEREST PAID

- 25 Home mortgage interest
- 26 Points paid on a loan to buy, build, or improve your main home
- 27 Payee's name, address, and identifying number:

28 Points paid on a home equity loan (other than to improve your main home), a loan for a second home, or a refinanced mortgage:

Lender's Name

Points Paid

Date of Loan

Life of Loan (years)

29 Investment interest (for example: margin interest, interest paid on loans used for property held for investment, etc)

Employee Business Expenses

Note: If you have any travel, transportation, meals or entertainment expenses or your employer reimbursed you for any of your job-related expenses, we need additional information. Please ask us for a special organizer for this purpose.

30 Union and professional dues

31 Professional subscriptions

32 Uniforms and protective clothing

33 Job search costs

34 Other un-reimbursed employee expenses:

Other Expenses Subject to the 2% Limitation

35 Tax return preparation fees

36 Investment counsel and advisory fees

37 Certain attorney and accounting fees

38 Safe deposit box rental

39 IRA custodial fees (that you paid directly)

40 Other expenses (list):

NOTE: FOR PLANNING PURPOSES TOTAL EVERYTHING IN LINES 30-40, THEN SUBTRACT 2% OF YOUR INCOME. YOU ONLY GET TO DEDUCT THE DIFFERENCE.

OTHER MISCELLANEOUS DEDUCTIONS

41 Gambling losses (to the extent of gambling income)

42 Amortizable bond premiums (acquired before 10/23/86)

43 Other miscellaneous deductions: