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January 2003 - Getting Organized to File Your Tax Returns.

It hardly seems fair! We're still drinking the last of the eggnog and trying to store the holiday decorations, and already blank tax forms from the government and W-2 forms from our employers start filling our mail boxes! Well, I'm going to assume that at least a few of you reading this have made a New Year's resolution to be more organized about the whole process this time (and hopefully reduce the tax bill in the process!), and in that spirit here are a few ideas to help you do this. Of course, this is a quick overview, designed to help you know where to dig further, and what to ask for if you need help. This overview is not designed to cover every possibility!

Start With the Basics

If you've had problems in the past with letters from the IRS instead of the credits and deductions you thought you were going to get, chances are it has to do with basic information at the top of your return.

- Compare the spelling of everyone's name with what is printed on the most current Social Security cards you have. **If Social Security has it wrong, get it corrected (and new cards issued) NOW so that when the return is filed it will go through smoothly**. Same thing goes for changes in last name in a marriage. If you want to use your married name on your tax return, get the name changed with Social Security now, or use the name they have when you file your return.

- While you have the Social Security cards out, make sure the numbers you use are exactly correct. Transposed digits will cause you to have spouses and dependents disallowed until you fix the problem, which is costly and time consuming.

- Consider e-filing this year. If there are basic problems, they will be detected within 48 hours, and can be corrected much easier and quicker. If you do e-file, you will need birthdays that match those on Social Security records and an exact match on last year's adjusted gross income (AGI), so have those items ready as well.

Make sure you claim exactly the dependents you are entitled to, no more and no less. If two or more people claim the same dependents, it usually will cause delays and IRS correspondence for everyone involved. (Refer to the articles I wrote in February, March, and April 2002 on this subject, you can find them at www.accuteksolutions.com if you need a copy now).

Get All Your Income Records Together

It is not fun to think you are all done with your taxes and then get a letter nine months later telling you that you owe several thousand dollars including penalties and interest because you forgot one income item on your tax return. Make sure you have everything, including:

- <u>All</u> W-2 forms (remember that part-time job at the beginning of last year, for example)

- All 1099 forms, including non-employee compensation, interest, dividends, rent, property and stock sales, etc.

- Copies of K-1 forms from each trust, partnership, limited liability company, and S corporation you participate in.

- Alimony or spousal support you received in 2002. (But not child support).

- A statement of revenues collected and expenses paid for each business, farm, or rental property you are involved in as sole owner. Also include an equipment list including purchase date, amount, and description, particularly for items bought or sold in 2002.

Consider if Itemizing Deductions Will Benefit You

You are entitled to a standard deduction of several thousand dollars. For example, most single taxpayers qualify for a $4,700 standard deduction, while most married couples filing jointly can claim a $7,850 standard deduction. If you are over 65, or blind, the standard deduction is higher.

There are many deductions that are available to you if you itemize, but if the total of these deductions is less than the standard deduction, you obviously should go for the higher standard deduction, which will also save you the effort of documenting your itemized deductions.

I will present many of the itemized deductions available to you in the next few paragraphs. When you review this list, if you even come close to your standard deduction, then take the time to document every itemized deduction possible, because they can often save you thousands of tax dollars. If you are not close, then stop while you are ahead!

Medical and Dental Expenses

The portion of medical and dental expenses exceeding 7.5% of income can be claimed as itemized deductions. These expenses include, but are not limited to:

- Doctor & Dental Visits

- Accident, health, dental, and vision insurance premiums paid with *after-tax income*. **If you are self-employed you can claim 70% of such premiums even if you don't itemize deductions!**

- Mileage to/from health care appointments (13 cents per mile for 2002), parking fees and tolls

- Eye care

- Lab fees

- Prescriptions (including *prescribed* smoking cessation and weight loss programs)

- Lodging on a limited basis while receiving treatment at a licensed hospital or equivalent

- Qualified long-term care services.

The deduction is allowed in the year the expense is paid, not necessarily the year the medical treatment is done. Sometimes it is beneficial to borrow (even with interest) to pay a large medical bill in one year to maximize the amount you will be allowed to deduct from your taxes.

Taxes Paid.

Some of the state and local taxes you paid in 2002 can be included in itemized deductions, including the following:

- State income tax paid when filing last year's return.

- Late income taxes paid in 2002 including those resulting from an audit. (Do NOT include penalties or interest)

- Real estate taxes paid. Again, you can include late real estate taxes paid, but not penalties or interest.

- Personal property taxes (vehicle, trailer, or boat) based on value. Be careful with this one. Some states, such as Utah, do not base their vehicle taxes on value, and as a result vehicle taxes paid to those states are not deductible for your income tax.

Mortgage and Investment Interest

This is often the big item that can make itemizing deductions beneficial overall. Make sure to include all of the following items, taking care to include each mortgage company you had for even a small part of the year. Often loans are sold and some of the 1098 forms and the resulting interest deductions are lost.

- Any and all 1098 mortgage interest forms, both for your primary home and for a vacation home you may also have.

- If the interest is paid to an individual, give name, address, and social security number in addition to the amount paid.

- Points on a mortgage loan used to purchase a home are deductible in full in the year paid. **If you refinance, any unused points from previous years can be accelerated and taken in full in the year the refinance occurs.** Other refinancing points are claimed over the life of the new loan.

- Investment interest not related to your home can also be deducted, but only up to the amount of investment income.

Contributions to Charity

Often, some charitable deductions such as the following are overlooked:

- **Cash** charitable contributions. Make sure you have a receipt or letter from the charity for any donation totaling $250 or more for the year.

- Copies of all **non-cash** (clothing or other property) charitable contribution receipts.

- Record of miles driven for charitable service (these are worth 14 cents each in 2002, so keeping a journal or day planner book can be very beneficial. Just 10 miles each week grows to over 500 miles in a year!)

- Out-of-pocket expenses as a volunteer worker. Again, you will want copies of receipts. Note that even $5 per week in out-of-pocket expenses can become $250 over a year's time!

- Purchases of items from charities for more than they are worth. Examples include garbage bags, light bulbs, or scout cake auctions. Subtract the actual value of the item and claim the difference as a charitable contribution.

Employee Expenses Not Fully Reimbursed by Your Employer

- **Auto expense**. Actual cost or mileage (36.5 cents per mile in 2002)

- **Meals on overnight business trips.** You can deduct 50% of these. Your day-planner should list the duration of each trip and the business purpose. Use this to prepare a list of business trips, cities visited, and the total of meal receipts for each trip. The IRS has a $30 per day meal allowance, with higher allowances of $34, $38, $42, and $46 for certain specific locations. You are allowed 75% of the daily amount for the first and last days of each trip.

- **Other employee business expenses, such as:**

- Union/professional dues
- Continuing education
- Uniforms
- Tools
- Safety equipment
- Business travel
- Business meals and entertainment

Other Deductions or Credits

Some other items that may save you taxes include:

- Adoption expenses

- Moving expenses related to a change in employment location

- Casualty/theft loss

- Alimony or spousal support you paid in 2002 (but not child support).

- Payments to most IRA (including SEP and Simple) and Keogh retirement plans.

- College tuition and student loan interest paid. Be careful on this one, there are several ways to claim these expenses, so check them all to make sure you are claiming the most beneficial method for you and your dependents.

- Carryforward items from last year, such as unused stock and net operating losses, and unused charitable contributions.

- Name, address, social security or tax identification number, and phone number of each provider of child or dependent care, along with receipts for the amount paid these providers so that you (and your spouse if married) could work or attend school.

Closing Thought

Keeping complete and organized records can save you thousands of tax dollars! If you need help, be sure to ask for it. Then approach this like you would any large, important task. Take it one step at a time, so that it won't overwhelm you. In a few weeks, you will be prepared to file a complete and accurate tax return that has the lowest legal tax liability!

Important Note!

The information in this article is intended to inform you of some of the financial opportunities provided in the tax laws or elsewhere. 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 (doug@accuteksolutions.com) if you would like a free initial 30-minute consultation to discuss your personal situation and how the tax laws might benefit you.

Questions you'd like to have answered in a future article are welcome!

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