FPA FINANCIAL PLANNING PERSPECTIVES

## Tis the Season – Things to Know Before Filing Your Taxes

Everyone loves a good tax tip. And now that tax season is in full swing, the IRS and other experts have started to issue tip after tip after tip. Here's a recap:

Getting a jump on your taxes long before the April deadline is the best tip of all. To do so, the IRS recommends gathering your records in advance, including W-2s and 1099s. In addition, the IRS recommends getting the right forms, all of which are available 24 hours a day, seven days a week at the IRS' Web site, www.IRS.gov. That site also has some helpful calculators to get you started.

That being said, tax payers should avoid getting too early a jump on their taxes. With the preferential qualified stock dividend rate, complicated foreign tax credits, lower capital gains rates and other changes over the last few years, many investors are finding that they receive Revised 1099s, or other tax reporting documents, well into March. If you've already filed your return, this can lead to costs of re-filing an amended return that you may wish to avoid. The best bet may be to get your tax return all completed, and then hold off filing it until the end of March, to see if any amended 1099s arrive.

Of course, keeping organized, thorough records is the key to filing on time. The IRS suggests that you can avoid headaches at tax time by keeping track of your receipts and other records throughout the year. Good record-keeping will help you remember the various transactions you made during the year and help you document the deductions you've claimed on your return. You'll need this documentation should the IRS select your return for examination. Normally, tax records should be kept for three years, but some documents — such as records relating to a home purchase or sale, stock transactions, IRA and business or rental property — should be kept longer.

To be sure, some citizens wonder whether they need to file a tax return. According to the IRS, you must file a tax return if your income is above a certain level and that amount varies depending on filing status, age and the type of income you receive. For example a married couple, under age 65, generally is not required to file for the 2006 tax year until their joint income exceeds $16,900. Even if you do not have to file, the IRS notes that you should file to get money back if Federal Income Tax was withheld from your pay, or you qualify for certain credits.

It's also important to choose your correct filing status, of which there are five options. According to the IRS, your federal tax filing status is based on your marital and family situation. It is an important factor in determining whether you must file a return, your standard deduction and your correct amount of tax.

Besides choosing the correct filing status, it's important to calculate whether you should itemize deductions or not? And that will depend on how much you spent on certain expenses last year. According to the IRS, money paid for medical care in excess of 7.5 percent of adjusted gross income (AGI), mortgage interest, taxes, charitable contributions, casualty losses and miscellaneous deductions in excess of 2 percent of AGI can reduce your taxes. If the total amount spent on those categories is more than the standard deduction, you can usually benefit

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by itemizing. The standard deduction amounts are based on your filing status and are subject to inflation adjustments each year.

Also of note, if you gave any one person gifts in 2006 that valued at more than $12,000, you must report the total gifts to the IRS and may have to pay tax on the gifts (if, including prior taxable gifts, in excess of your $1 million lifetime exclusion). The person who receives your gift does not have to report the gift to the IRS or pay gift or income tax on its value. Gifts include money and property, including the use of property without expecting to receive something of equal value in return. There are some exceptions to the tax rules on gifts.

In some cases, a taxpayer may want to consider using a paid tax preparer. If so, the IRS has tips on its Web site to follow. Of note, only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in all matters including audits, collection actions and appeals. Although you might not find that you need the services of a paid CPA or accountant every year, having a relationship established when unexpected opportunities or events occur will make getting timely professional input that much easier. Someone who knows your income and deduction patterns, and can quickly answer routine questions or research the more complicated issues, may well be worth the price – even in the years when things seem straightforward.

When completing your tax return, make sure that you take your time, double-check your math and verify all Social Security numbers. Math errors and incorrect Social Security numbers are among the most common mistakes found on tax returns.

And remember, if you are getting a tax refund, consider making an automatic contribution to your IRA; this is the first year that this can be done.

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*This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by a local member of FPA*