101 Tax Tips

(Strategies to help you keep more of what you make)

The Accounting Dept.

4455 Commerce Drive, Ste.107
Buford, GA 30518

Phone: 770-271-0051 Fax: 770-682-0577

This publication is designed to assist taxpayers in having a better understanding of items that can directly affect their income tax liability. The tips outlined in this book are based on tax laws at the time this booklet was written, and while it has been our goal to update this book as tax laws changes, keep in mind that there may be some tips that become outdated as new legislation is passed. If you should have questions on any of the tips included in this book, feel free to call our office.

Dear Taxpayer,

Do you ever feel like you pay way too much in taxes? If so, you are not alone. When you account for all of the different taxes we pay - federal and state income tax, real estate taxes, social security and medicare taxes, advalorem taxes, sales taxes . . . For many taxpayer's almost a third of their income goes to some type of "tax" OUCH! And if you own a business, there are even more taxes that come into play— employer payroll taxes, inventory taxes, corporate net worth taxes; the list seems to go on and on and on.

As a public accountant for the last 18 years, I have been asked many times what the secret is to paying less taxes. And while there are many tips and strategies you can use, the key to paying less taxes really falls in being a proactive taxpayer. How can you be proactive? Well there are a couple of things you must do if you want to be in better control of your tax situation. They are listed in this booklet as Tip #1 and Tip #101.

Tip #1 is to keep good records. I can recall countless times that we have worked with a client to prepare their tax return and we have asked them about certain deductions that they may qualify for and they answer "Yes, I am sure I had that last year, but I have no idea how much I paid and I don't have any receipts to prove the deduction, so let's just not worry about it." I am sure nationwide that there are probably hundreds of thousands of dollars of legitimate tax deductions that were never claimed because of poor recordkeeping. And lost tax deductions equal lost tax dollars from taxpayers wallets. (Uncle Sam wins!!)

Tip #101 is to stay on top of changing tax laws. Now, I know that this can be a full-time job, believe me. We spend an incredible amount of time each year studying new tax legislation and how it affects our clients. Tax laws can often at times be confusing because for every rule there is some exception that may or may not apply and if it is snowing in July and there are pink elephants in your yard you might qualify for a deduction. . . . . Well, you get the picture.

This is why working with a qualified, experienced tax professional can really help you to understand the tax laws as they apply to your specific tax situation and can help you plan for taxes.
We do quite a bit of tax work between February 1st and April 15th each year, but the most important tax work we do happens between July and December of each year. This is when we do tax planning with our clients to help them to be proactive and stay a step ahead of the tax man.

So where do you start in being proactive? Well, you have already taken Step 1 by reading this booklet. We strongly recommend that you go to our website at www.theacctdept.com and sign up to receive our monthly tax newsletter in your e-mail inbox each month. That will help you stay informed on tax issues. Also, if you are not already working with a tax professional and are interested in doing so, we would like to have the opportunity to earn your business. All of our tax preparer's are Enrolled Agents which means that they have had to pass tough IRS exams on tax law and are required to adhere to a code of ethics as well as stay on top of the new tax laws. We would be glad to answer any questions that you might have and assist you in being a more proactive taxpayer.

Sincerely,

Jacqueline McMillian, EA

General Tax Tips:

1. Good recordkeeping is the key to reducing your tax liability. Consider using QuickBooks or Quicken to track your finances to be sure you don't forget any deductible items.

2. Be sure to keep tax records for at least 3 years after the filing due date. The IRS in most cases can go back 3 years and request documentation for items on your tax return. If you cannot provide those documents upon request, they can disallow your deduction and increase your tax liability.

3. Always review your prior year tax return for carry over items. You may have unallowed deductions from a prior year that will carry forward to the current year and provide you with an additional write off.

4. Be sure that your employer has you classified properly. 1099 contractors are responsible for paying all of the social security and medicare tax on their earning, where employees are only responsible for half. So if you are being paid as a contractor, be sure that you do not qualify for employee status.

5. If you have a "one time event" such as the sale of an investment property or large gain on the sale of stock, be sure to make an estimated tax payment towards the taxes due. This can help lower or eliminate penalties that could be assessed for under payment of taxes.

6. Be sure that you review your withholding each year and make any necessary adjustments. File a new W-4 with your employee if needed to increase or reduce taxes being withheld if your tax situation changes.

7. If you find that you cannot file your return timely, be sure to file for an extension of time so that you can avoid late filing penalties. Note that an extension only relieves late filing penalties, but not late paying penalties. If you think you are going to owe taxes on your return, consider making a payment with the extension to avoid penalties for paying late.

8. Had a life changing event happen? Be sure to update your estate plan.

9. Worried about estate taxes? Consider using gifting to reduce the value of your estate and taxes that might be assessed.

10. You should review your tax situation once at mid-year and again before the end of the year. This will allow you to make any needed adjustments before the end of the year.

11. Be sure that you are using the correct filing status on your return. Filing status determines tax brackets and eligibility for certain credits, so choosing the correct status is important.

12. E-file your return for faster, more accurate processing. Avoid paying additional fees associated with rapid refunds or refund loans.

13. If you and/or your spouse is over age 65 or blind, you qualify to take a higher standard deduction.

Tips For Taxpayer's Who Itemize Their Deductions:

14. If you pay ad valorem tax when you purchase your car tags, don't forget to list the amounts paid on Sch. A. This applies to taxes paid on boats as well.

15. If you are paying state estimated tax payments, consider making your 4th quarter payment in December instead of January to get a current year deduction. Note this only helps if you are not subject to Alternative Minimum Tax (AMT).

16. Consider "bunching" deductions such as medical expenses into one year to help you get over the income thresholds that make items deductible. Sometimes making a health insurance payment early or paying a doctor bill a little later can help get you over the threshold to be able to deduct medical expenses.

17. Just a little short on having enough medical expenses to itemize? Don't forget items such as mileage driven for medical purposes, eyeglass repair, hearing aid batteries, and contact lens solution. Sometimes these little items can add up.

18. If you need to increase deductions this year, consider prepaying your January mortgage payment to increase your deductible mortgage interest.

19. If you have significant unreimbursed employee expenses and work for a small employer, consider negotiating with your employer to reimburse these items to you tax free. Since these deductions are limited on Sch A. you lose some of your deductions, and if you are subject to AMT, you lose them completely on your federal return. If you can negotiate a lower salary in exchange for expense reimbursement, you would pay less taxes than deducting the expenses on Sch A.

20. Want to support a charitable cause? Consider gifting appreciated stock to the organization. You are allowed to take a charitable deduction for the fair market value of the stock, and you don't have to pay any capital gains taxes on the appreciation.

21. Also remember that you can deduct out of pocket expenses for volunteer work for charitable organizations such as Boy Scouts or your church. You cannot deduct the value of your time, but you can deduct mileage and any other out of pocket expenses.

22. Playing the lottery? Be sure to keep your non winning tickets, so if you win a payout, you can deduct the cost of the tickets against the winnings.

23. Bought a new home? Points paid at the time of purchase are considered prepaid interest and can be deducted on Sch A in the year of purchase.

24. Refinance your mortgage? Points on a refinance are deductible over the life of the loan. If you pay the loan off early, any remaining points become deductible at that time.

25. Medical expenses for a child or close relative might be deductible even if they are not your dependents. Check the rules to see if you can deduct them on your return.

26. Made a big purchase this year? Deducting sales tax paid instead of state income taxes on Sch. A might give you a larger deduction. Also, if you get a state refund you won't have to include it in your income the following year.

27. Giving a lot of household items or clothing to a nonprofit organization? Be sure to get a receipt from the organization and consider taking pictures of the items you are donating to substanciate the deduction.

28. If you are paying Medicare Part B Premiums through your Social Security benefits, these payments are deductible as medical insurance on Sch. A.

29. Long-term care policies are also deductible on Sch. A under medical expenses.

30. Keep pictures of any valuables in your home. They can help substantiate deductions if they are subject to casualty or theft.

31. Are you a teacher? Get your school to give you a receipt for any classroom supplies that you pay for out of pocket and you can take them as a charitable deduction to the school on Sch A.

32. Remember that out of pocket employee expenses may be deductible on Sch A, so track mileage that you drive for your employer so they don't reimburse you for as well as any work supplies that you purchase out of pocket.

33. Be aware of Alternative Minimum Tax. This tax can "take away" some of your itemized deductions, so if you are subject to AMT you will want to plan with this in mind.

34. Have a safe deposit box? Rental fees are deductible on Sch A.

35. Keep in mind that credit card payments are considered the same as cash, so be sure to count deductible credit card expenses. This can also help you with "bunching" expenses by putting them on a credit card at year end and then paying them off at a later time.

Tips for Taxpayer's With Children

36. Looking to put money away for your child's education. Consider a state 529 Savings plan that could allow you a deduction on your state income tax return.

37. Keep in mind that your child is not subject to the gross income test to determine if he or she is your dependent. If they are under 19 or under 24 and a full time student and you provide over half of their support, they should still qualify as your dependent regardless of their earned income.

38. Own a business? Hiring your child can provide tax benefits for you. The child must actually work for the business and you can't pay them more than the going rate for their services, but by doing so you can lower your taxable income and if the wages are low enough, the child may receive the money without any taxes having to be paid. Be sure to check the rules associated with this deduction before you put them on your payroll.

39. If you hire your child, remember that they can set up an IRA account as a way for you to pay them more money "tax deferred"

40. Have a child in college? Brush up on the educational credits available to reduce your taxes and help pay for their college costs. Hey, pizza is expensive!

41. If your income is too high to take advantage of the educational credits, you may be able to take a Tuition and Fees deduction on your return to get some tax savings on college costs.

42. Do you childcare so that you and your spouse can work or go to school? You may be eligible for a tax credit for your child care expenses.

43. The same credit may be available for care of a disabled dependent.

44. Taxpayers with dependent children under age 17 may qualify for the Child Tax Credit, which could offset taxes due and possibly increase your refund amount.

45. Consider purchasing EE Savings Bonds to save for college and the interest earned could be tax free.

46. Depending on your income, you may qualify for the Earned Income Credit. This credit is designed for to assist lower income taxpayers. The amount varies depending on income, filing status, and number of dependents.

47. Be aware of "kiddie tax" rules if your children has investment income such as interest and dividends being reported in their name.

Retirement Plans:

48. If your employer has a 401(k) plan, contribute as much as you can to the plan. It will reduce your current year taxable income and will grow tax deferred. Your employer will also make a contribution to the plan on your behalf, so it is like getting a raise!!

49. Be sure that you don't overfund your personal IRA. . . This will keep you from paying penalties.

50. If you are required to take minimum distributions from your retirement plan, be sure that you take at least the minimum withdrawal to avoid penalties.

51. Keep in mind that if you take an early distribution from an IRA and use the funds to pay educational expenses, certain medical expenses, or to purchase a new home you could qualify for an exclusion from early withdrawal penalties.

52. If you leave your job to take a new one and have funds in an employer retirement ac count, be sure to rollover the funds into a new employer account or into a personal retirement plan. Trustee to trustee rollovers are your best option. If you do take the fund out yourself, you have 60 days to reinvest the funds. However, the plan will withhold taxes from the distribution and you will have to replace the tax money from personal funds to complete the rollover.

53. If you are enrolled in an employer plan, be sure you know if you qualify for a personal IRA before setting one up. Depending on your income, you may not be eligible to make a deductible contribution to a personal IRA.

54. Remember that you have until the due date of the tax return to make a personal IRA contribution, so if you find you need a deduction and you qualify, this is a good last minute option.

55. If you are cashing in a retirement account before age 59 1/2, consider periodic payments instead of a lump sum. This can help reduce penalties.

56. You may be able to contribute to an IRA for your spouse even if he or she does not have earned income for that year.

57. Be sure to keep record of any nondeductible contributions you make to an IRA or any after tax contributions to a pension plan. You will want to be sure that these are accounted for when you draw funds back out of the plan and aren't taxed at the time of withdrawal.

58. If you separate from service with your employer in or after the year you turn 55 and you withdraw funds from a qualified retirement plan, you can do so without paying the 10% early withdrawal penalty.

59. Need some additional expenses at the end of the year but don't have the cash flow to pay for them? Consider making end of the year purchases on a credit card. The IRS considers business purchases made by credit card the same as being paid by cash, so you can deduct them at the time they are paid by credit card and then pay the credit card at a later date.

60. If you file Sch. C, be sure to take the deduction on your Form 1040 for half of any self-employment tax you are assessed on your business profits.

61. Pay your own health insurance? You may qualify for the Self Employed Health Insurance Deduction on your Form 1040

62. Run your own business from home? You may qualify for Office In Home Expense deductions.

63. Be sure to review your business auto expenses each year to see if standard mileage or actual expenses give you the best deduction. However, once you take actual expenses, the IRS requires you to continue to take actual expenses as long as you own that vehicle.

64. If you pay to have your taxes prepared, be sure you deduct the cost of your Sch. C and Sch. SE preparation as a business expense the following year.

65. Retirement plans are always a great deduction for small businesses, be sure to review your options before deciding on a plan.

66. The type of entity your business runs under directly effects your tax liability. Sometimes changing entity types can reduce taxes. Keep this in mind when tax planning.

67. Want to have a corporate meeting? Consider renting your home out to your corporation for your business function. As long as the corporation pays you a reasonable rental fee, it is deductible to the company and you don't have to claim the rental income as long as you don't rent your home out more than 14 days a year. Just be sure you can document the business purpose for the meeting.

68. Planning to travel for personal reasons? If you can make part of your trip business related, you may be able to deduct a portion of your travel costs as a business expense.

69. Require employees to work late or work through lunch during busy periods? If you order in food to feed your employees while they are working you can get a 100% write off for this type of meal expense, while other meals are limited to a 50% deduction.

70. If you take a client, employee, or contractor out for a business meal, be sure to keep the receipt along with the business purpose for the meeting. This will insure that the

71. Take the standard mileage rate on your Sch. C? Keep in mind that you can also deduct the business portion of interest paid on the vehicle along with the business portion paid for your car tags.
72. Helping to support your parents? Consider hiring them to help in your business. This will make your assistance tax deductible while moving the income in a possibly lower tax bracket.

73. Have a growing corporation? Sometimes splitting the business into two different types of entities can save on overall taxes.

74. Know how you file. Are you cash basis or accrual basis? Strategies change depending on the method you use to report your income and expenses, so know how you file and what strategies apply to you.

Tax Tips for Investment Income

75. Timing is sometimes everything when it comes to investments. Whenever possible, look to hold your investments long term (more than a year) to get preferred rates on any taxable gains on the sale of the investment.

76. Interest is taxed at ordinary income rates. However, some dividends may be taxed at capital gains rates. Sometimes restructuring your investments can save you taxes.

77. Consider adding Tax Exempt Municipal Bonds to your portfolio.

78. Be sure to keep track of reinvested dividends—they add to your basis and reduce the gains when you sell the underlying stock.

79. When possible, specifically identify blocks of shares to be sold to your broker if you have purchased stocks at different times. This can help reduce the gains from the sale if you choose to sell stock with a higher basis.

80. If you own rental real estate and pay to get your taxes prepared, remember that you can deduct a portion of your tax prep fees against your rental income.

81. Consider "tax managed funds" when choosing investment options.

82. Have you loaned money to someone and the loan has gone bad? You may be able to write off the loan as a bad debt as an investment on Sch. D.

83. Looking to sell investment real estate? Consider a like kind exchange to defer taxes on the sale .

84. Be sure to track money that you pay to make improvements in your home. They can lower the gain on the sale if you do not qualify for an exclusion.

Tips To Lower Taxable Income:

85. Normally, if you itemize deductions, you must include your state refund from the prior year's return in income. However, if you were subject to AMT in the prior year, you technically did not get the state tax deduction so you can avoid including it in income on the federal return.

86. If you worked for more than one employer, you may have excess Social Security withholding if your total combined wages is more than the annual social security cap. If so, you can get a credit for the excess on your tax return.

87. Consider enrolling in a flexible spending account program if you have predictable medical or child care expenses.

88. Going to college? See if your employer offers any Education Assistance programs that could pay for your education with tax free money.

89. Have a high deductible health insurance plan? Consider setting up an H.S.A. Account to cover out of pocket medical expenses

90. Paying interest on student loans? This interest may be deductible on your return.

91. Have a skill that you could use to make extra money? Having a small business can open the doors to additional deductions that other taxpayer's may not have access to. Just keep in mind that you must open the business with the intent to make a profit and not just as a tax shelter.

92. Had to make an early withdrawal from a CD? The early withdrawal penalty is deductible.

93. Some income your receive, such as child support, gifts, and life insurance proceeds are generally not taxable income. Be sure you know what is reportable and what you can exclude from income.

94. Verify your W-2 and 1099 forms that you receive. Sometimes there will be errors in reporting that can cost you money if not corrected.

Marriage and Divorce Issues

95. Filing for divorce? Be sure to review the tax issues that may arise from the structure of your divorce settlement or custody issues.

96. Married Filing Joint or Married Filing Separate? In most cases, filing joint results in the lowest tax liability, however, sometimes filing separate is a better option in cases where both spouses have high incomes or one spouse has high medical or large miscellaneous itemized deductions.

97. If your new spouse has back tax liabilities, consider filing for injured spouse relief. This can help keep some of your refund from going to pay back taxes.

98. If your divorce settlement includes and employer savings or pension plan, be sure to consult with your attorney on how a Qualified Domestic Relations Order works and the tax consequences of receiving retirement funds from your prior spouse.

99. Planning a year end wedding? Since your filing status is determined on the last day of the tax year, the ceremony date can make a difference in your tax filing. New Year's Eve vs New Year's Day can make a difference in how much taxes you owe for the year.

100. If you separate from your spouse and did not live together during the last 6 months of the year and have a dependent child, you may qualify to file as Head of Household instead of Married Filing Separate.

101. Keep in mind that tax laws are constantly changing and what may be deductible today may not be tomorrow. . . And new deductions arise all of the time. Keep up with tax changes and tax strategies by subscribing to our online newsletter. To enroll, go to www.theacctdept.com.