

Financial Planning and Organizing from January to December

Tax Savings: Year-End Breaks and Long-Term Planning

Throughout the year you have opportunities for saving on taxes this year and on into the future? all it takes is a little know-how and advance planning. In this short course, we'll take a quick look at some strategies for saving this year, getting ready for tax time, and preparing for the future.

Of course, you should have a quick chat with your CPA to make sure that the plans you're making will pan out at tax time, but this guide will give you some pointers for smart tax management this year and beyond.

Before the Year Ends

Do you have a good financial filing system set up? If so, you already have good records of all expenses, income, bank accounts, investments and other forms of income. If not, start collecting and sorting now -- better late than never! Whether you work with an accountant or a software program, you'll need the most complete records possible to squeeze the most savings out of your taxes.

On the off chance that you don't maintain a good set of records, we'll talk more about that issue in a moment. For now, let's take a quick look at several tried and true tax saving strategies that can help you out at year's end.

Tax Reduction

This strategy entails switching investments from a taxable investment to something that earns interest tax-free. For instance:

You might move stock investments into tax-free bonds. You might move investments into alternate tax-free vehicles such as a Roth IRA.

Of course, if you use this strategy, you want to make sure that it fits within the context of your long-term investment plans. Don't derail your entire portfolio in the hopes of short-cutting taxes. The long-term disruption may not be worth the short term savings.

Tax Deferral

When you defer your taxes, you earn money now, but put off tax payments until

later.

Most retirement accounts fit this example. As the PriceWaterHouseCoopers' Guide to the New Tax Rules notes, "although your retirement investments generate income?, they are generally only taxed when you receive [the income]."

Another strategy is deferring ordinary income until year's end, so that it's taxable next year rather than this one. Alternately, you can accelerate deductions, for instance by prepaying your January 1 home mortgage payment in December. You can also buy a CD that matures next year. Ask for a New Year's bonus, instead of a Christmas bonus.

Income Shifting and Creating Itemized Deductions

This strategy entails shifting taxable income to a family member who is taxed at a lower rate; consider this for gifts of up to \$11,000. But be careful: children under age 14 are taxed at their parents' top rate for almost all unearned income!

There are also a few strategies for creating more itemized deductions. These include:

- Paying off your medical bills.
- Donating to charity.
- Paying before year's end for classes starting before April 1.
- Paying anticipated state taxes by year's end.

If you have a business, be sure to take advantage of special tax breaks. For instance, did you know the IRS offers the following breaks to help with holiday cheer?

Reasonable expenses for holiday parties for staff are fully deductible.

To qualify, these parties must be for the benefit of all employees, not just upper management. You can generally deduct half the cost of parties that include clients and customers. To be deductible, these parties must help further business.

You can deduct up to \$25 in gifts per client per year. Packaging, shipping and insurance are also deductible, even if they bring the cost to more than \$25.

Get Organized: Getting Ready for Uncle Sam's Big Day

Once you figure out a few ways to save money before the year's up, it's time to roll up your sleeves and get ready for the big day. If you keep your records in separate files, you're ahead of the game. If not, get ready to do some sorting. Whether you

work with a software program such as Intuit's Turbo Tax or a real live accountant, you need to get organized in advance. Among other things, accountants charge by the hour. The less sorting they have to do, the less you'll have to pay in the long run. Plus, the better organized you are to begin with, the more breaks you're likely to discover.

Here are some tips to make sure you end up with records that are easy for you -- or your accountant -- to deal with.

First, review the itemized deductions you took last year. They'll help you get a grip on categories for sorting this year's deductions. (And if you didn't take any last year, don't worry; we'll help you start some simple categories.) Even if you work with an accountant or tax advisor, you'd be well-advised to line these deductions up on your own behalf. Your accountant or advisor may not find them.

Next, sort through the year's cancelled checks for items that match those deductibles. Do the same with your credit card statement. Now, try to find the receipts for deductible items for which you paid cash.

Next, create a few deduction categories, using your old return as a guide. These might include: Medical, dental, transportation, donations, and miscellaneous. Create an envelope for each, and file the items in each category, along with the total amount you spent on each, in the envelope. Should you get audited, you'll need to be able to produce these so the IRS can take a gander at them.

In January, start gathering W-2s and 1099 forms, which you'll receive if you did work on contract or for other non-work income such as dividends, interest, etc. Also: be sure these forms represent all your income. To double check -- since some contract employers may slip their duty and fail to send you a 1099 -- be sure to review your bank statements to jog your memory about income you received throughout the year. Finally, <http://taxes.yahoo.com/checklist.html> is a great resource for figuring out whether or not you have everything you need.

If getting your records together seems tough, don't worry -- it's definitely worth it. It'll help you save money now, and if you set up a similar system now, it'll simplify your tax preparation ritual every year from now on. We'll take another look at good financial record keeping techniques in a moment. First, let's talk about deciding if you want to work with a tax advisor.

Keep it All Together Choosing a Tax Advisor

Tax preparation software programs like TurboTax make your taxes fairly simple. Especially if you have your records pre-sorted, you can enter income and

deductions into the software fairly quickly. However, given the increasing complexity of the tax code -- tax guru J.K. Lasser points out that it's 500,000 words longer than the Bible and counting -- you may want to hire an accountant to help you find all the breaks that are available to you.

After all, paying taxes is more complicated than simply keeping good records, and then tallying them up. Life events such as moving, finding a new job, becoming unemployed, getting married, sending a child to school, buying a house, getting divorced and having a child can all have significant tax implications. In these -- and any other -- situations, an accountant can help you:

Calculate the right withholdings
Discover tax strategies that will save you money
Recommend investment vehicles that make sense for your situation
Streamline your financial record-keeping tasks
Plan tax saving strategies for the future

If you decide that working with a tax advisor is the right move, be sure to ask your prospective accountant a few questions to make sure you're comfortable that you're getting the right fit. When you meet with an adviser, be sure to ask the following:

What's your expertise? Personal? Business? Estate?
How many clients do you handle? How many clients does your firm handle?
Will you handle my taxes directly, or do you have a partner who will do it?
How do you bill? How many of your clients have been audited? What were the results?
How accessible will you be if I have questions?
Can you help me with planning for next year?

Any accountant you work with should be able to answer these questions fairly easily. Your accountant should, of course, seem organized, but more than anything else, it's important that you feel like you really trust and can communicate with him and her. After all, your finances are among your most intimate affairs. Be sure that you feel like you have a firm grasp of what your accountant is doing -- if you have questions, he or she should be able to provide you with simple, clear answers. After all, the tax code isn't Greek, it's just tedious. For a fairly comprehensive list of accountants, visit the [Tax and Accounting Sites Directory](#).

You may or may not want to hire an accountant who is licensed as a CPA. Certified Public Accountants have passed an exam covering accounting, business law, auditing, and taxes. They have to adhere to a formal code of ethics and meet annual continuing education requirements. They are licensed by state licensing boards. However, other professional accountants -- also licensed by state boards -- may be perfectly suitable for your needs.

Finally, if you plan to hire an accountant, shop early. The worst time to try to sign on as a new client is from January through April. Unsurprisingly, accountants, especially the good ones, are slammed during those months.

Right Where You Need It Planning for the Future: Establish a Good Record Keeping System

Keeping track of income generally isn't that much trouble. After all, come January, you'll receive a passel of W-2s and 1099 forms to keep you honest. But what about other financial information?

The best way to keep track of your financial data is to set up a monthly filing system that allows you to easily organize expenses on an ongoing basis. Accordion files are perfect for this type of record keeping. Potential categories within each monthly file can also be helpful. These might include medical expenses, moving expenses, educational expenses, dividend and interest income statements, student loan payments, credit card statements, banking records, and other miscellaneous deductible expenses. Simply staying on top of this system will give you a huge leg up when it comes to tax time.

Be Prepared for an Audit

Let's hope you never have to deal with an audit. But if you do, know that you should have records going back three years. Legally, the IRS must do any audits within three years of the tax return due date, or the date of the filing -- whichever happens later. After three years, you can get rid of most records. But you should always:

Keep copies of all your tax returns. They'll facilitate future returns. Keep cancelled tax payment checks. These will prove you paid your taxes when they were due. Some Final Thoughts

Finally, if you're an entrepreneur, there's another strategy that can save you at tax time: Estimating your payments quarterly means you won't be faced by an unexpectedly huge bill in April.

And last but not least? If you're hoping for a quick-turn around on your tax return, the smart money says file electronically.

That's it! For more tax saving and planning tips, check out taxes.yahoo.com. And for a quick download of all your favorite tax forms, go to the [IRS Tax Forms Site](http://www.irs.gov).

File It!