CERTIFIED FINANCIAL PLANNER
BOARD OF STANDARDS, INC.

Getting Control of Your Income Tax Planning

Many Americans dread April 15 when the deadline looms for filling out federal and state income tax returns. Those who owe money at tax time frequently vow that they'll be better prepared "next year." It's a popular New Year's resolution for people to promise themselves that they'll keep better records and pay closer attention to possible tax-saving measures. Unfortunately, many people don't know how to follow through with that commitment.

Income Tax Planning Is a Year-Round Effort

- **Get organized.** Create a file for records you'll need at tax time. Many stationery or office supply stores sell notebooks with separate pockets for various tax-related items. Start by filing your pay stubs. Don't wait until your employer issues a W-2 income and withholding statement at the end of the year. Keep a running total of your income and withholding. These figures will provide a rough idea of how much you expect to have earned and withheld by year's end. Remember to include sources such as bonuses, stock sales and your spouse's earnings when computing income. If you're on track to earn more-or withhold less-than last year, it could mean that you'll owe more money at tax time. There might still be time to adjust your withholding at the company where you work. On the other hand, a big refund means you've given the government an interest-free loan all year.

- **Self-employed?** Remember, the rules differ if you're self-employed. Deadlines for opening a Simple IRA, SEP-IRA or Keogh plan may be different. You'll have greater withholding and reporting responsibilities.

- **Save those receipts.** Get in the habit of saving and filing receipts for your purchases and charitable contributions. Contributions to qualifying charities will probably be deductible. (Don't forget your non-cash donations of clothing and household goods.) Medical and dental costs, including prescription medicines, may qualify for deduction, depending on the amount. Similarly, other types of expenditures may be deductible if they meet specific criteria. Keeping track of what you spend will help in setting up a household budget, even if expenses are not deductible.

- **Be alert to changes.** Will you be welcoming a new baby into the family during the tax year? Do you or a family member expect to start college? Have you received an inheritance or other monetary windfall? Do you expect to buy a home, get a raise, start a new job, get married or divorced? These are just a few examples of life-changing incidents that should prompt you to re-examine your income tax strategy.

- **Pay attention to deductions.** Some commonly overlooked deductions that may or may not apply to your situation include:

    - Using a home equity loan or home equity credit line instead of credit cards. Unlike the interest you pay on credit card debt, the interest you pay on your mortgage or home equity loan is probably deductible-and comes with a more attractive interest rate.

    - Maximizing your retirement savings and pre-tax contributions at work. Do you qualify for an IRA? Does your employer offer a 401(k) or 403(b) retirement saving account? Consider having the maximum amount allowable deducted from your paycheck, especially if your employer offers "free money" in the form of a lucrative match. Your company might also offer other pre-tax benefits. Check with your human resources professional.

    - Meeting deduction thresholds. Medical expenses and some other types of expenses only qualify as deductions if they meet a specific percentage of your adjusted gross income. If you anticipate large medical bills this year, consider going ahead with other medical expenditures in the same tax year. Bundling these expenses could help you meet the government's threshold for deductible expenses.

- Don't forget job-hunting expenses. Are you looking for a job? If so, you can probably claim a deduction for related expenses, even if you're currently employed. Overlooked job-hunting expenses that may qualify include postage, mileage and resume preparation. Check your IRS tax preparation booklet or professional tax adviser to see which expenses qualify.

- See the "big picture." Every financial decision you make can potentially affect other aspects of your financial life. Taxes are no exception. Income tax planning should be done with regard for your general financial planning, insurance planning, employee benefits planning, investment planning, retirement planning and estate planning. Make income tax planning a year-round endeavor.

- **Consider consulting a professional.** A financial services professional may be able to identify tax savings that you overlook. Many financial planners are trained to see your tax strategy in the context of your overall financial abilities, needs and goals. Remember, the tax planning advice you receive could be deductible.

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