

Minimize your Taxes Maximize your Savings

Objective: To learn the basic tax strategies that will eliminate your fears about the tax system and help you pay the least amount in taxes.

Time Required: One to three hours.

Instructions:

1. Review and begin to implement the strategies listed on the Tax Strategies Checklist worksheet.
2. Send in your last 2 years of tax returns for a FREE review.
3. Download Form W-4 at www.IRS.gov
4. Adjust your W-4 and increase your take home pay. Be sure your employer with holds only the amount of tax you will owe.
5. Contact the Tax Institute at 800-594-8260 for a copy of the Deduction Detector and have the Tax Institute prepare your taxes.

Checklist

Date Completed

1 Review and begin to implement the strategies listed on the **Tax Strategies Checklist**.

2 Send in your last 2 years of tax returns for a FREE review.

Mail to:

Tax Review
400 Crown Oak Centre Drive
Longwood, FL 32750

3 Complete the Deduction Detector and Mail to:
Tax Institute
400 Crown Oak Centre Drive
Longwood, FL 32750

4 Download Form W-4 at www.IRS.gov

5 Complete and submit the new W-4 form to your personnel department at work.

Tax Strategies Checklist

These are the tax filing strategies you must understand to acquire the knowledge that will give you the confidence and courage to use the tax system to your advantage. Below is a checklist which will help reduce your chances for an audit and ensure you are not overpaying on your taxes.

- Use the 1040 long form.** You cannot pay more taxes, only less.
- Keep good records.**
- When in doubt, deduct it.** Take all the deductions the law allows. Follow the rules, but deduct all gray areas in your favor. Gray areas are not loopholes or an attempt to get around the law.
- File your return later, not earlier.** If you file your tax return after April 1, you automatically reduce your chances for audit about 40%.
- File an automatic extension Form 4868.** The automatic extension gives you until October 15th to file your return. Estimate the amount of taxes due and pay that amount when you file your extension. If you owe taxes and don't pay them until October 15th, interest is charged on unpaid taxes, but there is no late filing penalty.
- Don't over withhold.** When you overpay your taxes every month you are just giving Uncle Sam an interest free loan. If you repeatedly get a large refund you need to adjust your withholding on your Form W-4.
- Resist temptation to spend your refund.** Use Form 8888 to have the IRS directly deposit your refund money into up to three accounts, including your IRA.
- Not knowing means not getting.** To save money on taxes, you have to keep up with the latest changes in the law. Contact the Tax Hotline to find out which new laws affect you.
- Double check your return and your math.** Mistakes cost money — especially when it comes to taxes.
- Be aware of income or deductibility limits so you can plan accordingly.** Many deductions and credits aren't available to taxpayers who make more than a specific AGI. Exceed the limit set for a particular tax break, and you won't be able to claim it. Some deductions must meet a threshold before they help you. For example, if your medical expenses don't exceed 7.5 percent of your adjusted gross income they can't be deducted and miscellaneous expenses must total more than 2 percent of your income or they are of no tax value. One strategy is to concentrate your deductible expenses in one year so you can itemize. Then the next year, you might take the standard amount.

Itemize. A common mistake is not even trying to itemize if you don't have substantial tax deductions such as mortgage interest, thinking you won't have enough to bother with. Take a few extra minutes to add up all the potential deductions – if they equal more than the standard deduction, you should itemize.

Sell unprofitable stocks. Sell your worthless or near-worthless stock before the end of the year so that you can use the losses to offset any capital gains you might have made this year. If your losses exceed your earnings, you can deduct up to \$3,000 of your losses from your ordinary taxable income. Don't forget your Roth IRA. If your Roth IRA turned out to be inadequate, you can close the account and take the loss as a miscellaneous deduction. (be sure to invest the money in a more profitable choice)

Don't buy mutual funds in November or December. Mutual funds make dividend and capital gain distributions most often during the last eight weeks of the year. If you buy a mutual fund at this time, you may have to pay taxes for a fund you owned for just a few weeks.

Donate it and deduct it. Get a receipt for everything from out grown toys or furniture to old vehicles.

Don't overlook your medical expenses. The Internal Revenue Service lets you deduct medical costs as long as they are more than 7.5 percent of your adjusted gross income. You can deduct, travel expenses to and from medical treatments, can deduct eligible medical travel at 18 cents per mile; it's 20 cents per mile for 2007, insurance payments from already taxed income including long-term care insurance, up to certain limits based on your age, uninsured medical treatments such as an extra pair of eyeglasses or set of contact lenses, false teeth, hearing aids, and artificial limbs, costs of alcohol- or drug-abuse treatments can be counted on your Schedule A, laser vision corrective surgery, medically necessary costs prescribed by a physician such as a weight loss program or devices such as a humidifier or hot tub (the device and additional electricity costs to operate it) could be at least partially deductible)

Start your own business. Turn your everyday expenses into credits and deductions. Turn your hobby into a business and deduct it.

Minimize your self employment income. Pay your children. Instead of handing out allowances or just paying your children's expenses, pay them a salary that they can use to pay their own expenses.

Understand the difference between a credit and a deduction. Many taxpayers just opt for the higher dollar amount, which could be a costly mistake. A deduction helps reduce your amount of taxable income. A credit directly reduces your tax bill dollar for dollar. For example, a \$400 credit would be better than an \$800 deduction. To determine the value of a deduction you would simply multiply the deduction dollar amount by your marginal tax rate. If your tax rate is 25%, an \$800 deduction is worth only \$200 in tax savings.

Maximize Exclusions. When you spend your money on a benefit, such as making contributions to a flexible spending account or paying your portion of health-care coverage, your money goes toward these benefits before your employer computes your payroll taxes. Your salary amounts used for these benefits are, in effect, excluded from your taxable income. You also escape the employee's 7.65-percent portion of Social Security and Medicare taxes on the excluded money. Calculate each option to see which one gives you the most savings. For example, you could put money in a medical flexible spending account (an exclusion) rather than trying to substantiate enough medical expenses to itemize on your tax return

Exclusions can also be used to reduce overall holdings for estate purposes (the annual gift-tax exclusion, for example, allows you to give away \$12,000 each to as many individuals as you would like with no tax liability for either giver or recipient) and, on the state and local levels, as a means to lower your annual property tax bill by eliminating part of your home's assessed value from the computation (homestead exemptions). And don't forget the personal residence exclusion, 250,000 (twice that if you're married filing jointly) of the sale of your home is excluded from capital gains tax if you owned and resided in the property two of the past five years as of the date of sale.

Don't wait until April 15th. Get your 2 year tax review now. If you missed a deduction or credit in the past two years, amend your return and claim your refund. If you had to pay too much, learn ways to plan better so you can minimize your future tax bills.