

TAX TIME BASICS



IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.

Time to get organized

The following checklist will help you collect the documents needed to file your tax return. When all of the boxes are checked, you're ready.

- Your last 3 years' tax returns** (*new client*). Maybe we can amend and save money.
- Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.
- W-2 Forms.**
- Your last paycheck stub of the year** is full of information.
- 1099 Forms for interest, dividends, retirement, Social Security, and unemployment** need to be entered correctly to comply with the IRS matching program.
- Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).
- Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.
- Year-end statements from investment accounts** with transaction details for the year
- Assets held outside the USA.** Bring statement(s). Such assets must be disclosed even if they do not generate income.
- Purchase and sale information**, including dates, relating to anything sold during 2016 is needed.
- Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit (*even if you are reimbursed at work*).
- Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.
- Bankruptcy or divorce papers** (if applicable).
- If you paid an individual person \$600 or more for services rendered in connection with your business**, please provide their name, address, and tax ID number.
- Records showing income and expense for any small business or rental property you own** will be needed.
- If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.
- Bring IRA year-end statements.**
- Bring all other statements of income**, whether you think they are taxable or not.
- Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent, you will need to obtain 1098-T from the student to get the credit.
- Bring your records of estimated taxes paid.**
- Student loan interest form 1098-E**
- Adoption costs** if applicable. Also bring the legal adoption documents.
- Form 1098-C** for donations of automobiles or boats.
- Details on all noncash donations** greater than \$500. Include date, place, fair market value, and original cost.
- If you purchased a new fuel cell or electric plug-in vehicle in 2016**, bring the year, make and purchase date.
- Bring a voided check for direct deposit** of any refunds you expect to receive.
- Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.
- If your mortgage was forgiven due to foreclosure**, bring Form 1099-C or 1099-A.
- If you bought a new home or refinanced your existing home** bring the closing papers.
- Information on energy saving home improvements** might get you a tax credit.
- If you were an investor caught in a Ponzi-type scheme**, bring the details.
- If you received Forms 1099-K for internet or credit card sales** please bring them.
- Proof of health insurance is needed.** Bring Form 1095 if you received one.
- Health Savings Account (HSA) contributions and distributions.** Bring forms 5498-SA and 1099-SA.
- Out of pocket medical expenses** may be deductible (if large). Bring details.



YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2016 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds \$150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under \$47,800 (single) or under \$95,600 (married)) you may be able to sell stocks or property at a gain in 2016 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize and/or have dependents, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to \$3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2016 tax return, including extensions.

Pay all bills already received for operating expenses rather than deferring payment until 2017. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2017.

ARE YOU A HIGH INCOME TAXPAYER?

Taxpayers with earned income in excess of \$200,000 (single) and \$250,000 (married/joint) will owe an additional **0.9% surtax** on wages (from box 5 of Form W-2) and self-employment income over those levels. Employers have been withholding the extra tax when wages exceed \$200,000. Self-employed individuals should increase their estimated tax payments if they believe they may go over those levels... talk to your tax professional to adjust accordingly.

Taxpayers with adjusted gross income (line 37 of Form 1040) of over \$200,000 (single) and \$250,000 (married/joint) will pay a **3.8% surtax** on their investment income to the extent it exceeds these thresholds. Investment income includes taxable interest, dividends, capital gains, net rental income, and passive K-1 investments.



The basic strategy for year-end tax planning can be summed up in the following two statements:

- Channel your income into the year where it will be taxed at a lower rate.
- Channel your deductions to the year where your income will be taxed at a higher rate.

If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.

