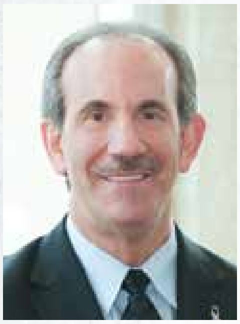
Prepping for Tax Season



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As we start the process of preparing for our annual tax returns for our personal lives and professional businesses, we must always consider every possible opportunity to take advantage of all the legal tax-saving advantages in order to minimize our personal and business tax liability. It is never a fun process making sure we saved all of those necessary receipts to verify any questionable business-related expenses. Let us try and review how we can minimize the process and make the best of it in spite of this necessary evil.

The first thing you need is a good tax professional to assist you. Tax laws change annually and there is no way for you to keep on top of the regulations. Hopefully your accountant has taken continuing education classes and has kept up with everything that will allow you to properly prepare your returns. The worst case scenario is you could always file for an extension and submit Form 4868, giving you a six-month extension if you need more time. However, you must submit your anticipated tax liability if you believe you will owe any taxes. This eliminates any penalty that can be assessed by the IRS.

Review your previous filing status, as this may have changed over previous years. Such examples may include marriage, child dependent additions and deletions, divorce, the death of a spouse, head of household due to additional dependent care, and so on. These may allow you additional or less tax deductions than previous years.

Make sure you are aware of any local and state tax filings for which you may be responsible. Many cities and states have their own municipal and state tax requirements that are tied in with your federal tax return deadlines. Some municipalities have reciprocal agreements with other cities and states, which eliminates dual taxation if you live in one city/state and work in another, and vice versa.

Many municipalities also have tangible and intangible property taxes which require you to file tax reports for personal property, equipment, and other assets you own. Check with your professional tax preparer for the proper requirements for non-income related tax obligations.

Your personal taxes are not limited to your personal income from your employment or business. Your total income also consists of many forms including: personal income from W-2s, income from partnerships (K-1), income from subchapter S corporations, interest and dividends from bank accounts and investments, profits from the sale of investments, gambling and prize income, and some gift and estate income. You may also deduct losses from these forms of non-employment related income to offset your tax liability.

Make sure you have taken full advantage of IRAs (simple, traditional, and Roth) where you may have the ability to deduct your allowable contributions until your retirement. This allows you to pay the respective tax liability when your income may be at a lower rate. You may have until April 15th of the filing year to contribute additional money (up to the allowable limit) into your retirement fund. Not all IRAs are the same, and tax liabilities may differ, but all of them do have tax advantages. Check with your tax professional for current regulations and advantages.

For your business, since document assembly is of most importance, make sure you have all your payroll records available, including W-2s for employees and 1099s for any independent contractors. You must send your employees and contractors their respective copies by January 31st of the tax filing year. W-3s, which show the total of all of the W-2s, must be sent to the Social Security Administration by the last day in February of the filing year.

When it comes to the end of the year, it might be best to pay all your outstanding expenses if you have sufficient operating capital or anticipated income to sustain you through the first quarter of next year. This can substantially reduce the amount of capital and possible profit left in the business at the end of the year, thereby reducing the increased tax liability you may incur.

Let us take a look at what information you must have to give you the most advantages in preparing your tax return. You should always have a detailed list of your fixed assets to make sure your capital equipment is up to date. If you purchased anything during the year, take advantage of the possible one-time Section 179 tax credits where applicable. Having previous schedules of depreciation can allow you to take full advantage and additional depreciation dollars for the current tax year return.

You must determine which expenses you have incurred and group them into categories for easy reconciliation. Good software, such as QuickBooks and Quicken, makes this much easier to calculate. Each and every invoice you pay throughout the year should be detailed as much as possible into categories. Examples include: accounting, automotive expenses, continuing education, legal, licenses, office expenses, office supply, medical equipment, medical supply, postage, training, and travel.

Proper software will allow you to create a chart of accounts and print detailed reports by category, date, vendor, and more, filing from periods of time for comparison purposes. It also allows you to save the files (reports included) and forward them electronically to your tax professional.

Keep all your bank statements in one place to verify your deposits, which show checks, credit cards, and cash deposits. This will be extremely important in an audit. Now that banks and most, if not all, financial institutions have your bank statements housed online, you can eliminate having to keep them in your office. Print them only when necessary.

So many businesses save all their receipts in files or banker's boxes and then have to pay to shred them due to confidential information (bank account and social security numbers) being available on these documents. A secured process is to scan your confidential documents and save them electronically where you can store them on a secured server, external hard drive, and even in the cloud where you can send links for these private files to your tax professional.

The most consistent common denominator is your professional tax advisor. I cannot stress enough how important the advice of a professional can be in order to take advantage of new tax regulations. These change every year and it is almost impossible for us to keep on top of them. If you have a question as to whether or not something is a proper or legal deduction, do not assume it is. Go with your gut and try not to rationalize. Your tax advisor is the best source of information.

Good luck, and be prepared to tackle this again next year. There is no way around it. It is part of our system, and the best advice I can offer is to play by the rules. The consequences are much worse than the reward.

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