

Ready For Tax Time

Consumer Alert!

1-888-995-7856 **ALLIANCE**
Credit Counseling

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By Edward Tonini, Director of Education.

"Taxes are what we pay for a civilized society."

Oliver Wendell Holmes (As quoted in the IRS publication
Why Do I Have To Pay Taxes)

Tax return procrastinators have an extra 2 days in 2007. April 15 falls on a Sunday this year and Monday is a legal holiday in DC, so the deadline for returns is April 17. In 2006, about 47 million people waited until the last week to file. Delays, however, can cost you money. Here are some strategies you can use to avoid the financial pain that can result from procrastination.

Who, Me?

The IRS publication referred to in the opening quote provides a thorough justification for taxes. You can read the document online at www.irs.gov/pub/irs-pdf/p2105.pdf. In short, if you are a citizen or resident of the United States or Puerto Rico and you have sufficient earned income – generally \$8,450 for single people or \$16,900 for married people filing jointly – then you are required by law to file a federal income tax return.

Even if you are not required to file, you should want to file in order to get a refund. You may be due a refund if you:

- had more federal income taxes withheld from your paycheck than you are required to pay
- neglected to file for refunds in past years
- overpaid your taxes in the last three years
- or if you can qualify for a refundable tax credit.

Getting It Together

Being organized will help make tax filing easier and quicker. Tax related documents should be accounted for in your system for storing and organizing all your financial documents.

Use A System To Manage Paper

A common way of storing and organizing your financial documents is to keep them in a filing drawer or box with several labeled hanging files or folders. You might choose to label the folders according to your budget categories and then



attach stick-on flags to the documents you will need to find at tax time. Another system is to keep a separate folder for collecting all the documents you will need for your tax return.

Collect Your Documents

Annual tax statements must be sent to you no later than January 31. Here's a list of typical documents you will need in order to complete your tax return:

Income.

- **W-2.** You will need this statement (of wages earned) from each employer you worked for during the past year.
- **1099-INT.** Statement for each bank account or certificate of deposit which earned more than \$10 in interest.
- **1099-DIV.** Statement for each stock or mutual fund account which distributed more than \$10 in dividends or capital gains.
- **1099-B.** Statement for each stock, bond or mutual fund you sold in the past year.
- **1099-G.** Statement if you got a refund last year and you itemized (instead of taking the standard federal deduction). Statement if you were unemployed and received benefits last year.
- **1099-R.** Statement if you received money from an individual retirement account (IRA).
- **1099-MISC.** Statement from each job during the last year if you were self-employed.
- If you owned a business or rental property, you will want all documents showing income and expenses.

Deductions.

- **1098.** If you are a homeowner, you will need a statement showing how much mortgage interest you paid last year. Mortgage interest is tax-deductible for most homeowners.
- Property taxes you paid (also deductible) should be reported on form 1098 if you have them escrowed. Otherwise, you will have a separate statement for them.
- If you paid interest on a home equity loan, you will need a statement showing how much you paid last year. In most

How Long? IRS audits can go back six years, so many accountants advise keeping tax documents for six to ten years. Documents related to home purchases, contributions to retirement accounts, and investments should never be discarded because of the potential for future tax-related activity.

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cases, it is also deductible.

- **1098-E.** If you are paying back a student loan, you will need a statement showing how much interest you paid last year. Interest and other fees paid on your student loan might be deductible.
- **5498.** If you made contributions to any IRA (traditional or Roth), you will need a statement showing how much you contributed last year. Contributions to a traditional IRA can lower your tax liability.
- Statements for federal, state or local taxes paid.
- Statements for charitable contributions.
- Statements for federal, state or local taxes paid.
- Statements for any casualty or theft losses.
- Receipts for medical expenses.
- Receipts for child care expenses.
- Receipts for moving/job expenses.

Identification Numbers.

- Make sure social security numbers on all documents are correct.
- If you file for the child care credit, you will also need the tax identification number of the person or business that provides the care.

Getting Up To Speed

Each year there are changes to the tax laws that affect you. IRS Publication 17 (Your Federal Income Tax) has a page titled "What's New for 2006" which outlines the main changes. It is the definitive tax guide with nearly 300 pages of content and a thorough index. It's available for free. Visit www.irs.gov or call 1-800-829-3676

Here are some highlights:

- **Standard deduction.** For 2006, the amount for single filers is \$5,150, for head of household filers it's \$7,550 and for married couples filing jointly it's \$10,300.
- **IRA contributions.** For 2006, the maximum contribution is \$4,000 for a single filer and \$8,000 for a married couple filing jointly. This maximum increases to \$5,000 and \$10,000 respectively if you were 50 or older in 2007.
- **Charitable donations.** Any clothing or household items must be in good used condition or better. Documentation

requirements have also changed. You now have to have a receipt or written record from the qualifying charity for a monetary gift of any amount (previously only gifts of \$250 or more had this condition).

- **Mileage rates.** For 2006, the work-related deduction is 44.5 cents per mile, for medical or move-related purposes it's 18 cents and for charitable services it's 14 cents.
- **Telephone excise tax credit.** If you paid the federal excise tax on long distance or bundled phone service between Feb.28, 2003 and Aug.1, 2006, you can get a refund between \$30 and \$60.
- **Energy credits.** If you replaced the windows in your home with energy efficient ones, added insulation, or purchased a solar water heating or energy-saving power system, you may be able to claim a tax credit.
- **Earned Income Tax Credit.** This credit is available to low-income working individuals and families. For 2006, this credit ranges from \$412 to \$4,536. It is refunded to qualified taxpayers after their taxes have been paid. The basic requirements include the following: for families with two or more children, the annual income (adjusted gross) must be less than \$36,348 (or \$38,348 if married filing jointly); for families with one child, the income must be less than \$32,001 (or \$34,001...); for families or individuals with no qualifying children, the income must be less than \$12,120 (or \$14,120...). If you know that you'll qualify, you may want to increase your paycheck by requesting an Advanced Earned Income Tax Credit from your employer. To determine if you qualify for this credit, click on the "EITC Assistant" link at www.irs.gov or call 1-800-829-1040.

Choosing Your Method

You can complete your tax return yourself or you can hire professional help.

Self-prepared

Pen and paper. If you filed a paper return last year, you will receive a paper form from the IRS for this year. You can also download your form of choice (1040EZ, 1040A, or 1040) at the IRS website.

Computer. Tax software cuts down the time required to complete the forms, increases accuracy, handles new laws and can help keep you from overlooking tax-reducing opportunities.

- **File electronically for free.** If your Adjusted Gross Income (AGI) is less than \$52,000 (more than 2 out of 3 taxpayers qualify), you are eligible for free tax preparation software and electronic filing. You will need access to a computer with a secure internet connection. Go to www.irs.gov and click on the "Free File" link.
- **File using purchased software.** If you don't qualify for any of the free software offers through the IRS website or if you need more extensive program features, many of the tax software companies have stand-alone packages as well as less expensive online versions. Check out reviews for commercial products such as TurboTax, TaxCut, or TaxAct.

Paid Professional Help

If your situation is too complex for online filing or software, paid help is available in varying degrees of expertise and cost. The IRS offers "Helpful Hints When Choosing a Return Preparer" at www.irs.gov/newsroom/article/0,,id=134094,00.html.

Finding Free Help

Free IRS Publications. Publication 910, *Guide To Free Tax Services*, identifies available IRS tax material and services and how to get them. Internet, telephone and fax services, and tax tips are covered in this guide (www.irs.gov/pub/irs-pdf/p910.pdf). IRS forms and publications can be obtained online at www.irs.gov or by calling 1-800-TAX-FORM (829-3676). The IRS customer service line is 1-800-829-1040.

Charitable Assistance. You may qualify for free live tax preparation. Low-to-moderate income earners can call the IRS Volunteer Income Tax Assistance Program at 1-800-829-1040. The elderly can call the same number for Tax Counseling for the Elderly.

For more information on refund scams, ways to lower taxes, and common mistakes to avoid, read our publication *Tax Time Topics*.

To Find Out More



- *Tax Time Topics* (Alliance): www.knowdebt.org/education.php.
- *Taxes 2007 For Dummies* (E. Tyson, et al. Wiley Publishing Inc.)
- *Your Income Tax 2007* (J.K. Lasser. John Wiley & Sons, Inc.) JK Lasser tax tips online at www.taxact.com/tax-tips/index.asp.
- *2007 Tax Guide* - www.bankrate.com/brm/itax/news/taxguide/2007tableofcontents.asp.