

Rocky Mountain Financial Professionals

Tax Time Has Arrived! Are You Ready?

Article Highlights:

- It is time to gather your information for your tax appointment
- Choosing your alternatives
- Tips for pulling your information together

If you're like most taxpayers, you find yourself with an ominous stack of "homework" around TAX TIME! Pulling together the records for your tax appointment is never easy, but the effort usually pays off in the extra tax you save! When you arrive at your appointment fully prepared, you'll have more time to:

- Consider every possible legal deduction;
- Evaluate which income reporting and deductions are best suited to your situation;
- Explore current law changes that affect your tax status;
- Talk about tax-planning alternatives that could reduce your future tax liability.

Choosing Your Best Alternatives - The tax law allows a variety of methods of handling income and deductions on your return. Choices you make as you prepare your return often affect not only the current year, but future returns as well. Topics these choices relate to include:

- Sales of property - If you're receiving payments on a sales contract over a period of years, you can sometimes choose between reporting the whole gain in the year you sell or over a period of time as you receive payments from the buyer.
- Depreciation - You're able to deduct the cost of your investment in certain business properties. You can either depreciate the costs over a number of years; or, in certain cases, deduct them all in one year.

Where to Begin? Preparation for your tax appointment should begin in January. Right after the New Year, set up a safe storage location, such as a file drawer, cupboard, or safe. As you receive pertinent records, file them right away, before you forget or lose them. Make this a habit, and you'll find your job a lot easier on your appointment date. Other general suggestions to prepare for your appointment include:

- Segregate your records according to income and expense categories. File medical expense receipts in one envelope or folder, mortgage interest payment records in another, charitable donations in a third, etc. If you receive an organizer or questionnaire to complete before your appointment, fill out every section that applies to you. (Important: Read all explanations and follow instructions carefully. By design, organizers remind you may otherwise miss.)
- Call attention to any foreign bank account, foreign financial account, or foreign trust in which you have an ownership interest, signature authority, or controlling stake. We also need to know about foreign inheritances and ownership of foreign assets. In short, bring any foreign financial dealings to our attention so we know if you have any special reporting requirements. The penalties for not making and submitting required reports can be severe.

- If you acquired your health insurance through a government Marketplace you will receive Form 1095-A, issued by the Marketplace that will include information needed to complete your return. In addition, you will need to provide proof of insurance to avoid a penalty or qualify for one of the many exemptions from the penalty. If you received a hardship penalty exemption from the Marketplace you will have been issued an exemption certificate number (ECN). That number must be included on your tax return. The 1095-A and ECN documentation need to be included with the other material you bring to your appointment. If your insurance coverage was through an employer, and the employer issued Form 1095-B, 1095-C or a substitute form detailing your coverage, bring it to the appointment.
- Keep your annual income statements separate from your other documents (e.g., W-2s from employers, 1099s from banks, stockbrokers, etc., and K-1s from partnerships). Be sure to take these documents to your appointment, including the instructions for K-1s!
- Write down questions so you don't forget to ask them at the appointment. Review last year's return. Compare your income on that return to your income in the current year. A dividend from ABC stock on your prior-year return may remind you that you sold ABC this year and need to report the sale, or that you haven't yet received the current year's 1099-DIV form.
- Make sure you have social security numbers for all your dependents. The IRS checks these carefully and can deny deductions and credits for returns filed without them.
- Compare deductions from last year with your records for this year. Did you forget anything?
- Collect any other documents and financial papers that you're puzzled about. Prepare to bring these to your appointment so you can ask about them.

Accuracy Even for Details - To ensure the greatest accuracy possible in all detail on your return, make sure you review personal data. Check name(s), address(es), social security number(s) and occupation(s) on last year's return. Note any changes for this year. Although your telephone numbers and e-mail address aren't required on your return, they are always helpful should questions occur during return preparation.

Marital Status Change - If your marital status changed during the year, if you lived apart from your spouse or if your spouse died during the year, list dates and details. Bring copies of prenuptial, legal separation, divorce or property settlement agreements, if any, to your appointment. If your spouse passed away during the year, you should have a copy of his or her trust agreement or will available for review.

Dependents - If you have qualifying dependents, you will need to provide the following for each (if you previously provided us with items 1 through 3 you will not need to supply them again):

1. First and last name
2. Social security number
3. Birth date
4. Number of months living in your home

5. Their income amount (both taxable and nontaxable). If your dependent is your child over age 18, note how long the child was a full-time student during the year.

For anyone other than your child to qualify as your dependent, they must pass five strict dependency tests. If you think one or more other individuals qualify as your dependents (but you aren't sure), tally the amounts you provided toward their support vs. the amounts they provided. This will simplify a final decision.

Some Transactions Deserve Special Treatment - Certain transactions require special treatment on your tax return. It's a good idea to invest a little extra preparation effort when you have had the following transactions:

- *Sales of Stock or Other Property*: All sales of stocks, bonds, securities, real estate and any other property need to be reported on your return, even if you had no profit or loss. List each sale, and have purchase and sale documents available for each transaction.

Purchase date, sale date, cost and selling price must all be noted on your return. Make sure this information is contained on the documents you bring to your appointment.

- *Gifted or Inherited Property*: If you sell property that was given to you, you need to determine when and for how much the original owner purchased it. If you sell property you inherited, you need to know the original owner's death-date and the property's value at that time. You may be able to find this on estate tax returns or in probate documents; otherwise, ask the executor.
- *Reinvested Dividends*: You may have sold stock or a mutual fund in which you participated in a dividend reinvestment program. If so, you will need to have records of each stock purchase made with the reinvested dividends.
- *Sale of Home*: The tax law provides special breaks for home sale gains, and you may be able to exclude up to \$500,000 of the gain from your primary home if you file a married joint return and meet certain ownership, occupancy, and holding period requirements. The maximum exclusion is \$250,000 for others. Since the cost of improvements made on your home can also be used to reduce any gain, it is good practice to keep a record of them. The exclusion of gain applies only to a primary residence; so keeping a record of improvement to other property, such as your second home, is important. Be sure to bring a copy of the sale documents (usually the closing escrow statement).
- *Purchase of a Home*: Be sure to bring a copy of the final closing escrow statement if you purchased a home.
- *Vehicle Purchase*: If you purchased a new plug-in electric car (or cars) this year, you may qualify for a special credit. Please bring the purchase statement to the appointment with you.
- *Home Energy-Related Expenditures*: If you installed a solar-electric system on your home or second home, please bring the details of the purchase and manufacturer's credit qualification certification to your appointment. You may qualify for a substantial energy-related tax credit.
- *Identity Theft*: Identity theft is rampant and can impact your tax filings. If you have reason to believe that your identity has been stolen, please contact

this firm as soon as possible. The IRS provides special procedures for filing if you have had your identity stolen.

- *Car Expenses*: Where you have used one or more automobiles for business, list the expenses of each separately. The government requires your total mileage, business miles, and commuting miles for each business use of your car to be reported on your return, so be prepared to have those numbers available. If you were reimbursed for mileage through an employer, know the reimbursement amount and whether it is included in your W-2.
- *Charitable Donations*: You must substantiate cash contributions (regardless of amount) with a bank record or written communication from the charity showing the name of the charitable organization, date and amount.

Unreceipted cash donations put into a "Christmas kettle," church collection plate, etc., are not deductible. For clothing and household contributions, items donated must generally be in good or better condition, and items such as undergarments and socks are not deductible. You must keep a record of each item contributed that indicates the name and address of the charity, date and location of the contribution, and a reasonable description of the property. Contributions valued under \$250 and dropped at an unattended location do not require a receipt. For contributions above \$500, the record must also include when and how the property was acquired and your cost basis in the property. For contributions above \$5,000 and other types of contributions, please call this office for additional requirements.

If you have questions about assembling your tax data prior to your appointment, please give this office a call.