

# BEZ TAX PREP

## What's Up for January

Brought to You by

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*What words do you associate with tax time? Procrastination? Panic? This issue is all about associating a very different word with tax season...PREPARED! This isn't your typical tax preparation article. We certainly aren't offering any complicated tax planning strategies. Instead, we're focusing on guidelines for taking the stress out of pulling together your tax documentation.*



*Maybe you promised yourself at the beginning of the year that you'd faithfully record all your financial transactions in a software program, but somehow you never seemed to get started. Or maybe you've just come to accept that tax time will always be stressful. But it doesn't have to be that way—a bit of organization and an action plan will ease the pain of this annual chore. Besides the obvious benefit of reducing stress, there are also financial advantages to preparing early for tax season. First of all, you are more likely to miss deductible expenses when you're scrambling to make the filing deadline. Secondly, if you decide not to sort your records, and walk into your accountant's office with a sack full of papers, you're going to pay a hefty price for the time it takes your accountant to sort it all out.*

### The Action Plan

For many of us, filing an extension has become the norm, but this just doesn't make good sense...not only are we simply prolonging the inevitable task of tax preparation, but for anyone expecting a refund, it's just adding *more* time before you are reunited with your hard-earned money! Often, procrastination is nothing more than not knowing where to start, so try following the step by step plan outlined below, and before you know it, you'll be filing your tax return *ahead* of time...no extension necessary!

#### Step 1: Make a Date!

The first step toward getting through tax preparation is to set aside a specific date

and time to work on compiling your tax information. Once you've set the appointment and marked it in your calendar, you can put the task out of your mind until the date arrives. No more feeling guilty every weekend because you're doing something else when you really *should* be working on your taxes! All you need to do between now and then is designate a basket or file for tax forms, and just drop the forms into the basket as soon as they come in the mail. Then, when the time comes, you'll actually be able to *find* the forms you need!

#### Step 2: Get Started!

*Action motivates us!* It sounds simple, but it's an important thing to remember when trying to accomplish an unpleasant task. This step is super-easy...just get to work! Clear off a work space for your tax preparation, gather some basic supplies so you won't have to go searching every time you need a stapler, Post-It note, or highlighter, pour yourself a cup of coffee, and focus solely on the task at hand.



#### Step 3: Pull It Together!

Once your work space is ready, it's time to pull out the basket where you've been collecting all those tax forms that arrived in the mail. Here's a list of the basic forms most of us will have:

- W-2s (from your employer, to report wages you've earned)
- 1099s (from various sources, to report interest you've earned or dividends you've received)
- 1099Bs (from various sources, to

- report any stock or bond sales)
- 1098s (from various sources, to show interest and taxes you've paid that can be deducted)

#### Step 4: Sort It Out!

This is the hardest part, but just dig in and stay focused, and before you know it, you'll be done with this step. If you've gone through the year without any sort of filing system, you probably have a bag or a pile full of miscellaneous receipts and statements. It's time to turn these items into organized data that will be the proof for the numbers on your tax return.

Begin with one piece of paper at a time. Using the list on this page, put each piece of paper into one of the tax categories shown. Set aside bank and credit card statements. (If you come across something you aren't sure how to categorize, don't let it stop your progress! Put it aside for now, and keep moving through the items you *can* classify.)

Next, go through your bank and credit card statements to find expenditures that didn't have a receipt associated with them, (such as items paid online or recurring automatic charges). Create a page for each tax category, and, as you identify tax-related expenses, list them on the appropriate category sheet. Include the date of the expenditure, payment method, amount, and description of the expense.

Once you've sorted through the majority of the papers, you'll begin to see the project taking shape. It's much easier to deal with the odd items you came across now that you can clearly see the categories you're working with. If you still aren't sure how to categorize something, call your accountant or make a note to discuss it during your tax appointment.

#### Step 5: Contain It!

According to Jeff Schnepfer, tax and finance expert and MSN

Money/CNBC contributor, an envelope system works best for compiling your tax documentation. Designate a large envelope for each of the categories you sorted in Step 4. Label the envelopes and insert into each one the receipts and itemized lists for that category.

#### Step 6: Get to the Bottom Line!

Once you make it to this point, you're almost there! This step is simply adding up the receipts and other documented expenditures you've put into each envelope. Write the total for each category on the outside of the envelope. Then transfer the totals for each category to one summary page that you can give to your accountant.

#### Step 7: Send It Off!

The final step! Make a copy of your summary page and the tax forms you'll be sending to your accountant. (Your accountant will likely give the originals back to you, but it's always a good idea to keep a backup copy, just in case.) Then get the tax package to your accountant right away, pleased that this year you can face April 15<sup>th</sup> *without* panic!

### Be Ready for Next Year

Now that you've transformed those piles of receipts and statements into orderly, categorized files with summary reports, why not carry it over into the new tax year? The secret to *truly* stress-free tax

preparation is to keep up with paperwork throughout the year. Here are some tips to set up an efficient system that will work for you all year long:

- Purchase an accordion-style expanding file with divided sections. Using last year's tax records as a guide, label a section for each tax category.
- Designate a "to be filed" basket in a convenient spot. Throughout the month, drop any items that need to be filed, including receipts, in the basket.
- Designate one filing day a month. You'll find that filing isn't such a chore when you do it regularly.
- Each month, as you review your bank and credit card statements, mark any tax-related expenditures. Then list the items on a page for each category and drop into the appropriate section in your tax file.
- As you receive tax-related documents throughout the year, put them in the appropriate section in your tax file.
- If you want to be as efficient as possible, consider using a personal finance software program like Quicken or Microsoft Money. Once you get accustomed to entering the data, you'll be amazed next year when your tax categories are already summarized at tax time, and all you have to do is print out a report to send to your accountant or

### General Tax Categories

*For most people, tax-related paperwork can be sorted into the following categories. Your categories may be slightly different, and if your finances are complicated, you might want to break these general categories down into subcategories specific to your tax situation.*

- ☐ Income (including W-2s, 1099s, interest and dividends statements)
- ☐ Real Estate (including interest statements from your mortgage company and tax assessments)
- ☐ Medical (including receipts for medical and dental expenses)
- ☐ Child Care (including payment receipts and information about your child care providers)
- ☐ Charitable Contributions (including receipts for cash and non-cash donations)
- ☐ Education (including interest statements for student loans)
- ☐ Other Deductible Expenses (including non-reimbursed employee expenses, tax preparation fees, professional education fees, investment-related expenses, safe deposit box rental fees, etc.)
- ☐ Tax Documents (including correspondence and forms received from the IRS and records of any tax payments)

