

Tax Talk: Every Little Bit Helps When It Comes to Saving Money on Your Taxes

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With tax time just around the corner, now is the time to consider whether you want to claim the standard deduction or file an itemized income tax return. Why? Simple! Often overlooked deductions can make a huge difference in lowering your tax bill if you itemize.



The standard deduction (\$5,000 for single filers, \$10,000 for married couples filing jointly) is fine for those people who have uncomplicated tax situations. But, the amount of your home mortgage interest payments, state taxes, property taxes, charitable contributions, and hurricane losses could actually be many times over the standard deduction. Meaning, if you don't itemize, you don't save as much as you are entitled to on your taxes.



With this in mind, take a look over the following list of often-missed credits and reductions before you begin the process of completing your 2005 tax return:

Education Expenses

There are many education-related deductions and credits available, whether you are currently making tuition payments, paying off your college degree, or saving for your children's college education. You owe it to yourself to check out the explanation of education tax benefits available on the IRS website at <http://www.irs.gov>.

Home Office Deduction

If you're self-employed, and your home office is your principal place of work, and your gross income is more than your related deductions, you should be able to claim this deduction. If you're employed by a company, you can deduct the home office **only** if it is for your employer's convenience. You must also pass the "exclusive use" rule to qualify for deducting a portion of your home's expenses, including mortgage/rent, utilities, and even repairs.

Charitable Deductions

This year, the IRS has waived the 50% of your adjusted gross income maximum contribution restriction due to Hurricane Katrina for all charitable gifts made between August 28th and December 31st of 2005. The limit is removed for any gift, regardless of the organization's designated cause.



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Don't forget to deduct all that you have given to charitable organizations, especially if you've given cash gifts or "in-kind" donations of clothing, toiletries, food, or appliances that you can then deduct at fair-market value. Go through your receipts, checkbook register, and previous credit card statements to make sure you don't forget all that you've given. Remember too, only donations to qualified organizations, not individuals, will qualify.



State Sales Tax/State Income Tax Deduction

This year, you now have the option of deducting either your state sales tax or your state income tax.

According to msnbc.com, while this deduction will mainly benefit taxpayers with a state or local sales tax but no income tax (**Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming**), it may give a larger deduction to any taxpayer who paid more in sales taxes than income taxes. For example, you may have bought a new house, car, motor home or boat, which boosted your sales tax total, or you claimed tax credits, thereby lowering your state income tax. If your state levies both taxes, compare your state and local income tax with the IRS sales tax table in Publication 600 for your state. To get the forms, call the IRS directly at **1 800 829-3676**.

Medical Expenses

To qualify for a medical deduction, your medical expenses for the year must exceed 7.5% of your adjusted gross income. So, if your income is \$50,000 for example, and you have \$5,000 in eligible expenses, you can deduct those expenses above and beyond \$3,750.

What's new this year is the IRS is becoming more generous about what can qualify, including weight loss programs, smoke cessation programs, even a health club membership if prescribed by your doctor in addition to other approved expenses like long-term health care insurance premiums, mileage to and from doctor appointments, over-the-counter medications, contact lenses, prescription birth control, and fertility treatments.

Miscellaneous Expenses

Did you know that gambling losses, job search expenses, safe deposit fees, subscriptions to investment publications, and even tax return preparation expenses could be claimed as tax deductions? It's true - however, your total miscellaneous expenses must exceed 2% of your adjusted gross income to qualify.

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Special Tax Breaks For Hurricane Disaster Victims

The IRS and Congress have extended special tax relief provisions for residents in the Presidential Disaster areas of Hurricanes Katrina, Rita, and Wilma, including:

- Tax deduction for casualty and theft losses.
- Deducting 100% for casualty losses.
- Automatic extensions.
- Waiver of fees and expedited service for requests of tax documents.
- Deferment of collection and audit actions by the IRS.
- Extra personal exemption for housing displaced people.
- No tax on mileage reimbursement for taxpayers driving their own vehicles to provide charity to hurricane victims.
- Waiver of early withdrawal penalty from retirement plans, up to \$100,000.

AARP's "Tax-Aide" Program Provides Free Tax Prep for Seniors

Sponsored by the Internal Revenue Service, Tax-Aide is the largest free tax counseling and preparation program in the country, helping more than 2 million elderly people with their federal, state, and local tax returns at some 7,800 sites throughout the United States during tax season. Most clients are low-to-middle income taxpayers over 60 years old. Tax-Aide sites are in easy-to-access places like senior centers, libraries, banks, and grocery stores. Volunteers will also visit retirement and nursing centers and homebound elderly taxpayers.



Are you a senior, or do you know a senior who could use some help this tax season? For more information call the **AARP Tax-Aide Information Line at 1 888 227-7669** or go online at www.aarp.org/taxaide. The **AARP Tax-Aide** site locator will ask for your zip code to find nearby help. Here's what's needed at the tax preparation site:

- Photo ID
- Social Security card
- Wage and earning statements
- Interest and dividend statements
- Copy of last year's federal and state returns (if available)
- Bank routing/account numbers

SCAM The perils - watch out for tax scams
Beware of any 'big refund' promises and be sure to safeguard yourself against identity theft.

Return preparer fraud. Con artists trying to give you a tax return that looks like you qualify for a big refund. Be honest - if you sign, you are liable.	Offshore deals. Hiding income in offshore accounts is illegal. The IRS, along with tax agencies, are pursuing this kind of scam aggressively.	'Phishing' Don't fall for e-mails claiming to be the IRS from tax-refunds@irs.gov. Often it's an attempt to get personal information.	IRS 'collectors' Don't let anyone in without I.D. If you suspect an imposter call the Treasury Inspector's hotline at 800-366-4484.

Source Internal Revenue Service

How much of a tax deduction does the IRS allow for tax exemptions?

Personal tax exemptions reduce your taxable income on your tax return. Each personal tax exemption you claim on your 2005 tax return is the equivalent of a \$3,200 tax deduction. Generally, you are allowed one tax exemption for yourself and, if you are married, one tax exemption for your spouse, and, if you have dependents, one tax exemption for each dependent on your tax return.

A person qualifying as your dependent:

- Must be a member of your extended family for the entire tax year;
- Must receive less than \$3,200 of gross income in 2005 (unless the dependent is your child and either under aged 19 or a full-time student under age 24);
- Must receive more than 1/2 of his/her support from you;
- Cannot file a joint tax return with his/her spouse, unless the joint tax return is filed solely to obtain a tax refund when neither the child nor the spouse if required to file a tax return;
- Must be a US citizen or national, or a resident of the US, Canada, or Mexico.

To learn more....

The IRS website at <http://www.irs.gov/index.html> provides a wealth of helpful, important information on tax filing which could end up saving you a lot of money on this years tax return. Be wise, and take a few minutes to explore!

The following websites are also good tax information resources:

- <http://www.statetaxcentral.com>
- <http://finance.yahoo.com/taxes>
- <http://www.taxtopics.net>
- <http://www.taxcut.com/taxtips/taxresources.html>
- <http://www.jacksonhewitt.com/resources.asp>

And, please consult with a professional tax consultant before filing.

For more information on this topic, please consult with a Certified Credit Counselor at 1.800.556.1548 or visit our Learning Center at www.anewhorizon.org