

HOW TO MAKE TAX TIME LESS TAXING

Since 1913, when income taxes were first imposed, April 15 has probably become the most dreaded day of the year for most adults. This is not just because it's the day when federal (and state) income tax returns are due. It's also because getting ready to file your return—whether you do your own return or hire someone to do them for you—can be a time-consuming and often aggravating chore. So here are

some things you can do to help make tax time less taxing in the future.

I believe you can work to reduce the burden of tax time from two different directions. First, you can form good record keeping habits to make tax preparation easier. And second, you can select investment strategies that may potentially reduce your tax bill. In this article, we'll discuss ways to make tax preparation easier.



Accountants and other professionals involved in tax preparation will generally tell you that the best way to reduce time, aggravation and expense of actual tax preparation is to keep good records. If you haven't kept good records in the past, resolve to start today for your next return.

As January rolls around each year, various institutions begin to send you reports they have to give you and the IRS (W-2, 1099-Dividends, 1099-Interest, and so on). Establish a file folder for your tax data and put all of these items into the folder as they come in. Doing so can help you avoid misplacing something that the IRS will definitely receive and will look for in your return.

You'll need additional information for preparing your taxes, and keeping good records along the way can make tax time easier and less frustrating. It can also make your return more accurate and help you back it up in case of an audit.

Start a file system where you can keep statements,

transaction receipts for purchase and sales of securities, and other paperwork about your investments. If you keep them up to date, these files will contain much of the key information you'll need at tax time. However, for convenient reference, you may also want to use a notebook to record

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purchases and sales of securities (dates, prices and costs/proceeds), CDs on deposits at banks (with account numbers) and other investment data.

Various institutions will report income and what are known as "gross proceeds" from sales and redemptions, but they don't report information such as what you paid for an investment—it's up to you to provide the IRS with that information.

Whenever you sell an investment, whether it's real estate, stocks or bonds, the IRS wants you to report your profit or loss on the transaction. To calculate this, you will need your records showing when you bought the item, what you paid for it (this is called your "cost basis" or "basis"), what you sold it for and your net gain or loss.

If you use a dividend-reinvestment program for some of your securities, it is especially important to keep good records. Be sure to save the final year-end statements, which show all investments for each year. All the reinvested dividends, which you are taxed on each year, are added to your basis. They affect the capital gain or loss calculation, and thus the taxes you may owe, at the time you sell the security.

For example, say you originally paid \$5,000 for a utility stock, and over the years you reinvested a total of \$7,000 in dividends. If you sell the stock for \$15,000, you owe capital-gains taxes on only \$3,000 not \$10,000. This is because your basis (the total amount you paid for what you eventually sold) is \$12,000 (\$5,000 plus \$7,000)—not \$5,000.

If you form some good "housekeeping" habits, early in the year, and you start to assemble the information to do your taxes, you'll find it all in one place. And when you arrive at your accountant's office with this information ready for entry onto the tax forms, you'll be an appreciated client. **P&P**



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