Tax Tips You Can Use

September Checkup
By Angela Clague, EA LTC #29937-C
First Published in the Jacksonville Review Oct 2011

Do you walk out of your tax professional's office and say "See you next year?" I can understand if you do. Tax time is stressful to most people, and something they don't want to have to think about for a while. Someone once told me that having their taxes done was like going to see the dentist. Well, just like going to see the dentist for a check-up, September is a great time for a tax check up.

Are any of these situations that might apply to you?

You are currently receiving social security, and you decide it's time to spend a little money on fixing the house up. You withdraw some extra funds from your traditional IRA account, and have tax withheld. You think that covers it. You may be in for a nasty tax surprise. Up to 85% of social security may be taxed depending on other income. Let me give you an example. Fred and Wilma have $18,000 of taxable pension income and $30,000 of social security. In this case, only $500 of their social security is taxable, but because of their exemptions and the standard deduction they have a $0 tax liability.   In the following year, in addition to the $18,000 of pension funds, Fred and Wilma pull out an additional $20,000 from their traditional IRA.   When they file their return they have a nasty surprise. Not only do they pay tax on the pension and IRA income, but now $13,650 of their social security is being taxed as well. Their tax liability increases from $0 the year before to $3779. They wished they had talked to their tax professional.

Meanwhile, Barney and Betty had their house repossessed. Their first and second mortgages were forgiven. They were told by a friend that debt that is cancelled on your home is not taxable. Barney and Betty didn't bother to talk to their tax consultant. When it's time to file their taxes they learn that they don't have to pay tax on the cancelled debt from the first mortgage, but they DO have to pay tax on most of the income from the 2nd mortgage that was cancelled. Why? Because there are specific provisions for income from the cancellation of debt on home acquisition indebtedness. Their friend did not know this.

What about medical bills? The cost of most procedures runs pretty high. You may decide to enter into a payment plan with the hospital, spreading payments over a two year period. However, medical bills are deductible when paid, NOT when incurred. If you pay them in a single tax year you may be able to get a tax deduction because you hit the per cent of gross income test. It might be worth your while to try to find a way to pay them off. Time for that tax check-up.

Are you buying a home; selling a home; sending a kid to college; putting money into a retirement account, selling stocks or other assets? Do you have changes to business income and profitability? The list goes on.

So, if you have had any significant financial changes in your life and you haven't already spoken with your tax consultant, use this time to make a phone call. Ask the question, and if you need a tax check-up, do it now. April may be too late.

The Jacksonville Tax Lady LLC (OR License #13695) is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso. Kathleen and Angela can be reached at 541-899-7926.

The fine print: This article is for information only. Please see your tax professional for questions about your individual tax situation.