

Do You Think You Are Paying Too Much In Taxes?

Ten Issues to Review Annually

In doing the usual dreaded task of preparing for your annual tax preparation there are some key questions you should be asking yourself. These are questions to get you thinking about your tax situation and to help you take advantage of recent law changes and/or modifications.



1. **Sales Tax** – Do you feel it is your duty to keep the economy running, single-handedly? There has been a new change that allows taxpayers itemizing their deductions to elect the higher of income taxes or sales taxes paid in a year.
2. **College Planning** – Are you saving for your children’s college education through the WI Edvest system? You are entitled to a deduction of up to \$3,000 of contributions for each child as a Wisconsin deduction (this equals a \$250 tax savings).
3. **Head of Household** – Are you a single parent with a dependent child for whom you are providing more than 50% of the expenses? You would be surprised how many people do not think of this.
4. **Charitable Contributions** – Do you give money and/or time to many different organizations? Nonprofit groups do not always send a letter summarizing your gifts for the year. Don’t forget the driving you did to further the cause; mileage is deductible at \$.14 per mile. Did you give to help the tsunami survivors? Contributions made through January 31, 2005 are deductible on your 2004 tax return.
5. **Home Office** – Do you work out of your house? If you own your own business, this could be a valuable deduction for you. In addition, if your employer does not provide a work space for you as an employee, you may be entitled to this deduction.
6. **Business Entity Choice** – Have you reviewed what entity is the best fit for you for both liability and tax purposes? Sole Proprietorship, Partnerships, LLCs and S Corps all have different tax impacts to the individual. This decision should be reviewed at least annually to ensure you have the appropriate fit for today and tomorrow’s issues.
7. **Investments**
 - a. Dividend Rates – Are you taking full advantage of the reduced dividend tax rate of 15%? For most people this is significantly less than ordinary income tax rates. Have you asked yourself how this could assist you in succession planning or selling a business?
 - b. Capital Loss Carryovers - You should be reviewing long term loss carry-overs (capped at \$3,000 per year) to your current portfolio to see if you should take advantage of your current gain positions.
8. **Auto Deductions** – Do you own your own business? How do you report your auto expenses for the year? Are you an employee that does not get reimbursed for mileage? (note: commuting miles are not applicable) There are many options available to maximize your deductions in this area.
9. **Section 125** – Take advantage of your employer’s full flex plans – un-reimbursed medical expenses and day care if offered. Day care alone at a \$5,000 annual limit saves you \$382.50 in social security and Medicare taxes, plus income taxes at your tax rate.
10. **Retirement** – Do you own your own business or have an employer sponsored retirement plan? If so, have you revisited your existing retirement plan to optimize your retirement savings? There are new plans available with the capacity to contribute up to \$42,000 per year to your retirement. Roth IRAs – Looking for multiple years of tax free investment growth? This is a great retirement savings vehicle for you. Max out your employers match....it is the easiest money you will make all year.

We recommend you discuss any tax strategies with a tax accountant. If you have additional questions please contact Natasha Chambers, CPA (608-664-1055) or Stephanie Barganz, CPA, SPHR, Partner (608-664-1047) at Bodilly CPAs & Consultants, LLP. Visit our website for additional resources www.cpmadison.com.