

10 tax mistakes to avoid in 2006

Steer clear of pitfalls in new year

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With the new year nearly upon us, here are a few thoughts on tax mistakes you want to be sure to avoid in 2006.

1 Assuming taxes will drop.

Based on deficits and debts, I guess the first mistake that you could make is thinking that taxes will be lower in the future. Of course I could be wrong, because Congress is kicking around proposals to extend the 15 percent long-term capital gains tax rate that was set to expire after 2008. Supposedly, based on Washington math, the lower rate brings in more money and stimulates growth, which increases government revenues that lower the deficit. Of course, these are the same folks that said the deficit was around \$315 billion, yet one year later the debt is up by \$700 billion.

2 Not hiring an accountant or tax pro.

Hire an accountant or tax preparer who can be as creative as the folks in Washington when putting together the numbers and guiding you through the never-to-be-simplified overly complex tax code. The panacea of tax simplification has come to a grinding halt faster than private accounts for Social Security. These tips can help you choose a tax pro that best fits your needs.

3 Relying on Social Security.

Sure there will be something available in retirement for those who contributed, but it may be more need-based. Do your best to maximize pension and IRA contributions. Contributions to 2005 IRAs are up to \$4,000, and an additional \$500 for those older than 50 before the end of this year. If you're in business for yourself, there are some excellent pension plan opportunities available, but some of the best require that you establish the plan before year-end.

4 Failing to get organized.

With all the recent problems that have hit us, you not only need to be organized for taxes, but also you need to be ready when disaster strikes. It's been my experience that organized clients pay less in taxes because they have a good set of records. Go to the office supply store and buy yourself files for this year and next. Get your 2004 tax return and organize your files by the major categories on the return. When you get done, you'll have files for wages, interest, capital gains, individual rental properties, charity, mortgage interest, taxes, etc.

In January, you'll start receiving correspondence labeled "important tax documents." Of course these are important, and I suggest you put them in their corresponding 2005 file. Start out with a fresh set of folders for 2006. And get those important papers to a safe place, above sea level preferably.

5 Not making a fresh start for 2006.

If you operate a business that is not incorporated, you may want to consider the advantages of incorporating in the new year. Not only do corporations give you shelter from some financial risks, but also they give you flexibility for saving on taxes. Although the country is in debt up to its neck, there's no altruism in overpaying your taxes.

6

Giving Uncle Sam too much out of your paycheck.

Did you owe much or get a big refund on your 2004 income taxes? Do you expect the same thing to happen this coming filing season on your 2005 taxes? The culprit is an incorrect Form W-4 for paycheck withholding, especially for working married couples. Although there was some reform of the marriage penalty, don't count on much help if you itemize your tax deductions. The Internal Revenue Service has an easy-to-use withholding tax calculator that tells you the number of allowances to claim on your Form W-4. To use it, you should have a copy of your 2004 income tax form handy and estimates of the same items for 2006. Armed with this information, make the changes on your W-4 so that this coming year you'll end up paying the IRS just what you owe, no more or no less.

7 Not having the proper insurance in place.

Well actually that's two mistakes because you should evacuate when told. With all that we insure nobody wants to think about more insurance, but it's too late to add insurance when the need arises. Those folks covered by Medicare will also need to get familiar with Part D -- the prescription drug coverage.

8 Not seeing your accountant before things get crazy.

The closer to April 15 that we get, the busier your accountant gets. And just like anybody who has too much work, some of it doesn't get her full attention, especially when she starts working 12- to 14-hour days.

If you visit your accountant and she looks overwhelmed, consider taking an extension to file your income tax return so you both have opportunity to adequately review your taxes. If you don't have an accountant or tax professional, evaluate your situation to determine if you could benefit from professional advice.

9 Not taking full advantage of your attorney.

Your attorney should review your wills and other documents to determine that they are still in accordance with your wishes and that they also conform to the impending repeal of the estate tax. If you haven't done your wills and you have children or property, then your attorney should advise you of the risks that you are taking and should get working on these indispensable documents and other estate-planning steps. If you're in business, your attorney should also update your corporate minute books.

10 Failing to look forward to the future.

Gas prices are at an all-time high, a family of four's share of the national debt is \$129,000, up about \$9,000 from last year, and global warming may be causing all these nasty storms. What I mean to say is save for the future of our kids through Section 529 plans and Educations IRAs and think about a hybrid. There are some great tax advantages to thinking green and securing the education of our future leaders.