TAX SECRETS!

What they ***don't*** want you to know!

(Compiled by Prodesk.Com)

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LEGALLY HIDE ASSETS FROM THE IRS

You've probably heard of people keeping assets in a safe-deposit box thinking no one will find out about those assets. What they fail to realize is that if the box is under their own name, it is very easy to find. All the IRS needs to do is a bank search for boxes in their name.

To really keep a safe-deposit box hidden from everyone, you need to have a lawyer set up a nominee corporation. The only function of this corporation will be whatever you designate, for example, to rent a safe-deposit box.

You should pay for this box in cash instead of a personal check or credit cards. Checks and credit cards are easily traceable. When you pay with cash, although your name will be on the bank signature card, the banks records will show the corporation as the box's owner. Since you took the extra precaution of paying for the box in cash, none of your records will connect you to the box.

It is a good idea to add another person, usually a family member, as signatory to the box so that if something happens to you, this family member will easily have access to the box without having to go through too much legal stuff.

LET UNCLE SAM PAY FOR EDUCATION/TUITION

Education Loans

Interest on education loans are considered personal, and therefore, nondeductible. Here's what you can do. Borrow against your home and use the proceeds to pay for your education. Since interests on home equity loans are fully deductible, you have just converted your education loan into a tax deduction.

Special Schools for your child

If your child is attending a special school due to a mental or physical handicap, most of the related costs are deductible as medical expenses. There are a few conditions that need to be met to qualify this as a deductible expense: 1) the disability has to be real; 2) the school and/or teachers at the school have to be trained to deal with that particular disability; 3) the school has to be recommended by a doctor. (If the child has shown obvious improvement by attending the school, then this third condition may not matter.)

The costs that are deductible would be tuition, transportation to and from the school, meals and boarding expenses if the child lives at the school.

DEDUCT INTEREST ON "PERSONAL" LOANS

If you borrow money for personal reasons, for example, to buy an entertainment center, the IRS considers this a personal loan; Therefore, interest on this loan is non-deductible. Here's a simple loophole you can use to legally turn this non-deductible interest into a "deductible" interest.

Instead of borrowing money to buy the entertainment center, take money out of your savings account to buy it. Then, borrow money to put back into your savings account to replenish the account. Since your savings account is legally an investment, the interest on the loan to replenish your savings account is now deductible. You have just turned interest on a personal loan from 'non-deductible to 'deductible!'

SHIFT YOUR INCOME WITHIN FAMILY MEMBERS

Invest in your children. When a child under age 14 is given an "investment income," the first $650 of this income is completely tax-free! Anything above $650 and up to a maximum of $1300 is taxed at a lower child's rate so the child will pay less taxes on this money compared to what you would pay as an adult. This is called shifting income.

Instead of giving your children an allowance, you can hire them to help out in your home business with simple tasks, and you can pay them a reasonable salary. By doing so, you are shifting income from an adult's high rate to a lower rate that applies to a child. Therefore, the child pays a smaller tax on this income than you would. Your child can earn up to $4000 TAX-FREE. If you have more than one child, they will have that much more earnings, tax-free!

Plus, you can deduct your children's salary as a business expense. If your child didn't work for you, you would have to hire someone else to do the job and pay them. However, when you use this loophole, your child pays lower taxes AND you get a deduction on the salary.

5 HIDDEN DEDUCTIONS YOU DIDN'T KNOW ABOUT

Medical Deductions You Didn't Know About
Note: Medical costs are only deductible if the total expenses exceed 7.5% of your Adjusted Gross Income. For this reason, you should be using every medical deduction that is legally allowed. The savings can add up very quickly.

Deduct Costs of a Weight-Loss Program

Medical deductions are allowed only if the treatment used is specific to a disease or illness, not just for general health purposes. Therefore, the cost of a weight-loss program is usually not deductible.
Strategy: If you have a health problem that is a result of being overweight, for example, high blood pressure, you can take advantage of this deduction.
Special diets required for certain individuals can also be deducted provided that this diet exceeds the cost of a normal diet.

Smoking
Similarly, stop-smoking programs can be deducted if the program is used for a specific disorder, for example emphysema, cancer, etc.

Deduct Costs of Vitamins
Legally, only prescription drugs are deductible as medical expenses. To deduct the cost of vitamins, all you have to do is ask your doctor to give you prescriptions for vitamins. While prescription costs may be a little higher, if you use vitamins regularly and shop around for a good deal, you can take advantage of this strategy. If you're not taking vitamins regularly, then your troubles are much bigger than just taxes.

Deducting Work Clothes
Costs of work clothes are deductible only when these clothes cannot be worn outside of work. For example, a Fireman can deduct costs of work clothes since he cannot wear these clothes anywhere else. A Tax Attorney, on the other hand, cannot deduct costs of his work suits since he can wear these same suits at other social occasions.

IRS ERRORS CAN BE GOOD NEWS FOR YOU

If the IRS has given you a much larger refund, you may be able to keep it if:
the IRS does not ask for it back within the first 2 years. If the IRS waits too long to correct its own mistake, you can very likely win the court battle and keep the money.
If such an error occurs, you should still report it to the IRS since you may be liable for back taxes if they figure out the error sooner. By doing so, you are in the clear and if they wait too long to collect, you can walk away with this money legally.

WHAT TRIGGERS AN AUDIT?

While it's hard to predict what the IRS will look for as triggers to an audit, here are the most likely reasons that could cause your taxes to be audited:

Incomplete Applications: Always complete your taxes fully and carefully. If you have included forms or schedules, staple them together so that nothing goes missing at a later date. Missing paperwork is considered incomplete.
Large amounts: amounts that are unusually large can be a trigger. This includes large income deductions, refunds, donations, etc. (For donations or gifts that are large, be sure to file Form 8283 and report the exact amounts of donations. The IRS has ways of comparing numbers with the Charities and finding out about any discrepancies.)
Investment inaccuracies can also be a trigger. Be sure to report all dividends and interests from all your investments.
Your Prior tax returns: If you've been audited before or gotten in trouble with the IRS before, you may be audited every year.
Your accountant or tax preparer: Similarly, if your tax preparer has been in trouble with the IRS before, all the taxes prepared by him/her may be audited.

Should You File Early or Late?
While filing early means that you will get your refunds earlier, some experts say that early filings may be more prone to tax audits than late filings.

BE CAREFUL WHOSE ADVICE YOU TAKE

Not all tax advisors will be able to give you the best advice. The tax professional you pick has to be compatible with you and your lifestyle.

What to look for:
- Find someone who is not afraid to inform you of new strategies to save on Taxes. At the same time, the advisor should not be overly aggressive so as to get you in trouble. He/she should inform you of the strategies that don't work well anymore.
- The tax preparer should be familiar with your line of work and the tax saving opportunities that are available to you. If you are running a business, the preparer should be familiar with that type of business.
- The prepare should be able to look at the big picture and advise you on how to do things differently in the future for better results (if such advice is necessary.)
- If your tax advisor has been in trouble with the IRS before, all his/her tax preparations, including yours, could be audited.

FREE HELP FROM THE IRS

It is your responsibility to learn as much as you possibly can about taxes. After all, most of us overpay taxes when we don't have to, simply because we don't know. The best place to start is with the IRS office.

Believe it or not, the IRS offers free help to you in the form of publications, phone service, and walk-in offices.

Publications you MUST have: Call your local IRS office and request these important publications. They include lots of important information that you need to know about - Publications 17 and 910

Phone and walk-in services are also free. You should take advantage of both whenever possible. Most of your questions will be answered at no cost to you. Phone numbers for call-in services and Office locations for walk-in questions can be found in your 1040 instructions booklet.

There is a volunteer tax assistance program available for elderly, handicapped, and low-income individuals.
Call your local IRS office and ask about the VITA (Volunteer Income Tax Assistance) program.

PREPARATION IS KEY

Your Tax Preparer Depends on You

While you may not want to file your taxes until the last minute, you still need to start preparing for it as early as you possibly can. Although this is easier said than done, start preparing for your taxes before April 15. If at all possible, start organizing your paperwork before the end of the year.

A tax preparer's worst nightmare is when a tax payer walks into the office with a shoe box full of receipts, checks, statemensts and other bills, etc. You are paying for the time you spend with your preparer. Use this time wisely and cost-effectively. Most preparers will provide you with a tax organizer which you can help you to keep track of your expense records for the year. Use them.

If you're unsure of anything, always ask. That's what your preparer is there for. He/she is getting paid to help YOU.

Plan for the future
A good accountant will offer to help you with your future plans. If not, you should ask for help for it. The best way to get the most out of your tax return is to plan for the future as much as you can. Ask about future major purchases, investment plans, estate planning, and future tax law changes. At least one-third of your money will go towards taxes so you had better become your own expert in this field. Learn as much as you can, ask questions, get the answers.

Preparation can be your best weapon.

Study Last Year's Return
Take a good look at your previous year's taxes. See where you made mistakes. Ask your preparer to advise you on better strategies.

JOINT OR SEPARATE FILING?

Simple little changes in your spending or investment habits each year can change the outcome of your tax preparation. Also note that the constant changes in tax laws will affect you too. Therefore, you and your spouse should prepare drafts of your taxes both ways (joint and separate) to see which method will work better for you each year.

You should also keep in mind that when filing jointly, each spouse is liable for the entire tax amount and any penalties/payments that come along as a result of the return.

Tax break for you if you're supporting your parents
If you're paying for your parent’s medical bills, but can't claim them as your dependents, you can get a deduction on that expense as long as you pay for these expenses directly.

If more than one family member is supporting the parents, file a multiple-support declaration. Plan it so that one member alone can deduct medical expenses. By changing the agreement every year, a different member can claim the exemption each year.

CREDIT CARDS CAN HELP YOU WITH DEDUCTIONS

Credit card bills are usually paid much later than the actual purchase date. One advantage tax payer's have is that any purchase/payment made by credit cards is considered to be made on the date of the actual transaction.

How can this help you?
If you've made a transaction using credit cards this year, you can deduct it this year and not pay the credit card bill until next year. Use this method and pay for your medical bills using your credit card.

If you've used your credit card to make personal purchases, interest on these payments are considered personal and therefore, non-deductible. However, you can take out a home-equity loan and use this money to pay off your credit card bills. Interest on home-equity loans is fully deductible.

Entertainment Deductions

By keeping accurate records, you can get deductions for business-related entertainment expenses. Business-related meals, hotel lodging costs, and so on can be deducted. If your business requires you to travel a lot, related expenses can also be deducted. Check with your accountant or tax preparer on the specific expense deductions.

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