

your 1040 could be a gold mine



Now that April 15 has come and gone, what's become of your completed Form 1040? If you're like many taxpayers, you've tucked it away in a drawer and forgotten about it.

But John Kilroy, a Vanguard financial planner with more than 30 years of tax planning experience, suggests in an interview that you examine it. Following these tips could save you money this year:

- Don't provide an interest-free loan to Uncle Sam by overpaying your taxes through the year.
- Make sure you claim the tax credits you're eligible to receive.
- Use your charitable contributions to get a bigger tax break.

When you're done with your tax form, why not file it and forget it?

Completed tax forms tell a story. At a minimum, it shows what a person's tax life is at the current time. At the maximum, it opens the door to all types of financial planning opportunities.

What's a common opportunity people overlook?

If a tax form shows a large balance due, or a large refund, then there may be an opportunity for the person to better manage how much and/or how often they're paying income tax over the course of the year to either the federal government or their state government. I'm still constantly amazed at the number of people, either on purpose or by accident, who use the IRS as a bank. It's not a good investment.

Isn't getting a large tax refund a good thing?

No, typically not. The money people get back is money that they could have had in their hands during the course of the year. This is money that could have been used to invest or to pay off debt. Neither the IRS nor the state pays the taxpayer any interest on that money.

How can someone reduce tax withholding?

A W-4 form needs to be completed to adjust federal withholding. This shouldn't be complicated, but it will depend on the payroll system used by the employer. The employee may be able to complete the form online.

Are people missing out on tax credits?

Yes, there are credits people fail to claim. Tax credits based on education are often not taken to their fullest benefit.

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How can you tell if a college tax credit was missed?

If I look at a parent's tax form and I see a college-age dependent, but I don't see any educational credits, that tells me the parent might have missed out on a credit.

There may have also been an opportunity for the student to utilize the credit. If I look at the total family unit, it may be possible to lessen the combination of taxes paid by parent and student if the student takes the credit. This is especially true in situations where the parent could not take the credit as a result of income limitations.

Do you see mistakes with regard to charitable contributions?

In almost all cases, taxpayers make charitable contributions by check or credit card. From a tax-planning perspective, this may not be the most efficient asset to utilize in a charitable gift.

While there are exceptions, you typically will get more tax bang for your buck by making contributions of appreciated assets, such as stocks. Our income tax system allows a taxpayer to potentially deduct the full value of a donated security without having to recognize its embedded capital gain. So you wind up with a charitable deduction on an asset that you otherwise would have had to pay capital gains tax had it been sold.

What should those considering hiring a tax professional look for?

It's important to look for credentials to help identify qualified professionals. A certified public accountant or a Certified Financial Planner™ may help you understand the story of your tax return and its planning opportunities.

You may want to get a recommendation from a friend or family member. You can also research your options online with groups such as the American Institute of CPAs and the Financial Planning Association.*

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