

# Your Personal Tax Information 101

By: Michael Burzynski, CPA

Everyone has unpleasant experiences in their lives, be it returning an internet purchase, having dental work done, driving in a traffic jam, or gathering information for their annual tax preparation. While we cannot ease the burden of most of these experiences, we hope to help simplify the process for gathering your personal tax return information. While the following guide is not all inclusive, we hope it will cover the key specific areas for your personal tax return process.



## [Step 1 – Implement a Simple System](#)

We are at that time of year where you need to first be in the right mindset to effectively and efficiently organize your tax information. This process can be a monumental task if you don't properly triage the information you receive. We offer the following very simple advice:

1. Above all, **get a designated spot** at home for all of your tax information – let's call it your "**1040 File**". This could be a large envelope, file folder, or the classic shoebox that all accountants love. Whatever works best for you, have a defined storage system.
2. **Next, triage all incoming mail as it come in the door and move it to your 1040 File.** You will receive several documents in January and February that say "*Important tax document enclosed*" and can save yourself time and possible omissions on your tax returns if those envelopes go directly from the mailbox to your **1040 File**. Many people like to review their mail before filing it, but the fact is that it will be much easier to review your tax information once you receive all of it rather than piece by piece.
3. Be aware of and address the obvious tax information you will receive. Most banks, investment companies, mutual funds, charities, etc. have very automated and organized systems to efficiently provide all recipients with the annual tax reporting information. Therefore, watch for mail from these companies and be prepared to move them to your **1040 File**.



## [Step 2 – Go Through Our Standard Checklist](#)

Very few of us deal with taxes on a regular basis, and most of us work diligently to suppress any knowledge of income tax filings on the hope that they will magically disappear or that the tax returns will file themselves. Therefore, we recommend that everyone go through our two-page checklist of yes/no questions to help jog their memory and also to ensure we receive all relevant tax information.

Many people think they will remember major components of our tax return preparation process, but we cannot tell you how many times our clients have forgotten to tell us about large donations, new real estate purchased, mortgage refinancing, energy efficient home improvements, and yes, even children born during the year.

Just like the checklist everyone goes through before a vacation to make sure they turn off the iron and close the windows, our checklist serves as a reminder of the common and important things to address before you provide your tax information to us.

# Personal Tax 101

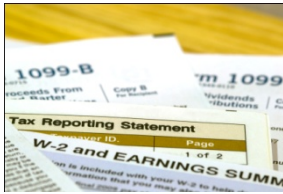
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## Step 3 – Be Aware of Tax Information

The US Tax code is over 70,000 pages long, so there is no short list we can provide that will cover every possible item of taxable income and/or deduction. However, the following summarizes the key documents you may receive and should put in your **1040 File**.

### Income

There are several categories of taxable income and the following addresses the most common items you may receive regarding various sources of income, both taxable and non-taxable. Please contact us for guidance if you are unsure of items that may not be below, like business or partnership investments.

- [W-2s](#) – This is the most common document individuals receive. Very few people forget their W-2 forms, but many people *misplace* them because their employer hands them out rather than mails them. Over 95% of W-2 forms come in the first 3 weeks of the year so just make sure to put them in your **1040 File**.
- [1099-INT](#) – These forms report interest that you earn, typically in a bank account. Keep your eyes peeled for the “Important Tax Document Enclosed” envelopes and set them in your **1040 File**.
- [1099-DIV](#) – These forms report dividend earnings from mutual funds and other investments. Keep your eyes peeled for the “Important Tax Document Enclosed” envelopes and set them in your **1040 File**. Be aware that mutual funds occasionally restate dividend details so you may receive amended 1099-DIV forms. We recommend you file all forms in your **1040 File**.
- [1099-G](#) – This is a form you receive from the government (usually the State) indicating government payments to you, including the amount of your prior year tax state refund and unemployment compensation. The Wisconsin Department of Revenue offers this information on their website, and to lessen the tax documents you receive in the mail, you can sign up to receive the information via an email [here](#).
- [1099-R](#) and [SSA-1099](#) – These forms report various forms of retirement distributions, including IRAs, pensions, employer retirement plans, and Social Security payments. Like W-2 forms, over 95% of these come in the first 3 weeks of the year.

### Deductions

There are many more categories of deductions than there are of taxable income, but there are definitely some key deductions that benefit most individuals and for which it is relatively easy to gather the supporting information.

- [Mortgage Interest \(Form 1098\)](#) – This is the most common deduction that people miss, usually because of 2<sup>nd</sup> mortgages, mortgage refinancing, or home equity lines of credit. For deductible mortgage interest, you will generally receive a federal form 1098 in the mail in early January. Please note that some mortgage companies will include the form 1098 with their monthly statement and you therefore need to keep your eyes peeled for it.

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## Deductions (Cont.)

- [Real Estate Taxes](#) – This is the most common tax deduction. We recommend you set aside your tax bills and the separate “paid” tax receipts for your home and any other real estate you may own.
- [Donations](#) – Most charities mail annual letters to acknowledge donations during the year. Also, remember that the IRS requires that you have a letter or other acknowledgement for any donation of \$250 or more. You should put the donation letters in your **1040 File**. For noncash donations, remember to ask for receipts when you make the donation and keep lists of what you donate.
- [Health Savings Account \(HSA\)](#) – For those of you with HSA accounts, you should receive an annual form 1099-SA that provides information on your contributions and distributions.
- [Health insurance](#) – Most people who are employees have their health insurance subtracted pre-tax, but there is an a deduction available for self-employed health insurance as well as for long-term care insurance, so make sure to put this information in your **1040 File**.
- [State deductions](#) – Most states have a deduction for section 529 account contributions, including the Wisconsin EdVest program which also allows deductions for grandchildren and other non-dependents. Therefore, remember to put the annual reporting in your **1040 File**.
- [Medical expenses](#) – This deduction can be tricky because of income limits and what qualifies, so please contact us for guidance if you have significant medical expenses.

## Credits

In the early days of the tax code, tax credits were few and far between and generally benefited very narrow categories of individuals. We have seen this change over the past 20 years where there are now very few individual tax returns we prepare that don't have some sort of tax credit. Here are some common credits that may benefit you.

- [Tuition Credits](#) – There significant federal tax credits as well as state deductions for college tuition and other higher education expenses, including some adult coursework. Most colleges will provide you with a Form 1098-T tuition statement or you can easily request from the school.
- [Child Care Credit](#) – There is a pretty generous federal child care credit that gives back at least 20% of the child care costs up to \$6,000 for two or more kids (\$1,200 credit). Most day care providers generate a year-end statements that you should promptly put in your **1040 File**.

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## Step 4 – Know the Most Common Omissions

We have prepared tens of thousands of tax returns over the years and have received tax information in every form imaginable, from dinner napkins to photographs, scanned documents to bags of receipts, from overly organized accountants to organization-challenged Zookeepers. In our years of experience, there are some common omissions in information provided (or *not* provided) to us. Here is a list of the most common omissions.

1. **Missing mortgage interest statements** – Even if you have the same mortgage for the entire year, there's a chance the mortgage was sold during the year. Also, with today's extremely low interest rates, it is possible you refinanced or took out a home equity line of credit. Therefore, make sure you have 1098 forms for all mortgages you may have paid during the year.
2. **Not providing closing statements** from the purchase or sale of real estate or mortgage refinancing. While it is no longer as common as it once was in the mortgage industry, points paid in connection with lowering the interest rate on a mortgage are either currently deductible on your tax return or can be amortized and deducted over the life of your mortgage.
3. **Missing annual HSA statements** – If you have an HSA, your bank is required to provide you with an annual form 1099-SA if you had any withdrawals and most banks also provide a year-end summary.
4. **Not informing of changes in dependents** – Be it a child finally moving out for good, a new child born during the year, or a divorce settlement with dependency exemptions in alternating years, this is a common area for misinformation.
5. **Missing donations** – Most people remember to provide information on their *major* donations, but we often have people call us after we've completed their tax returns to tell us about forgotten donations. We therefore recommend that you put all letters you receive immediately in your **1040 File** and also review your annual credit card charges to make sure you count any sponsorships or donations during the year.
6. **Missing education expenses** – While there are income limits on some education credits, you may have the ability to allow for dependants to take the credit and possibly reduce the overall tax liability of the family. You should therefore provide any information you have regarding college expenses or similar coursework for you and/or your children.
7. **Missing all pages of supporting information** – While some documents like a W-2 are generally all-inclusive, many other documents come with attachments and supporting information that may be important for tax preparation. We therefore recommend that you provide us with all supporting documents that come with in the "Important tax document enclosed" mailings you receive.

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## [Step 5 – Go Through the Checklist One Last Time](#)

Once you have your **1040 File** ready to go, we recommend you take 5 minutes to go through our two-page checklist one last time to ensure you address all the “Yes” answers.



## [Step 6 – Contact Us, then Relax](#)

After following the above steps, you can provide your well-organized **1040 File** to us and we'll take it from there. Even if you are worried that your information is not in tip top shape, give us your best shot by March 15, 2012 so we have time to complete your tax filings.

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