

## **The Tax Planning Cycle:**

**January :** For the new calendar year, prepare a large envelop with the current year on it to deposit all tax information into. Create a 3-ring binder to collect sale ticket information on all sales of financial securities during the year. For the just ended tax year, prepare a Rubbermaid or Sterilite box with folders titled: Federal and State Tax Summary Information; 1040 W-2 Wage Information, Schedule A – Itemized Deductions, Schedule B – Interest and Dividends, Schedule C – Business Income/Expenses, and Schedule D – Capital Gains/Losses, Schedule E – Rental Income [if you own rental property]. If you have to pay quarterly estimates, your 4<sup>th</sup> quarter estimate for last year’s return is due January 15<sup>th</sup>.

**February:** Begin placing receipts, documents relating to the current year’s taxes in the envelop – e.g. property tax receipt/check, charitable contribution – checks, receipts for donations with estimates of value. Start taking information out of last year’s envelop and putting it in the appropriate folder within the year just ended tax box – e.g. W-2 in the 1040-W-2 folder, all checks and donation receipts for charitable contributions in Schedule A. Take out the 3-ring binder and review your sales tickets to see that you have included the purchase tickets with each sale for Schedule D.

**March:** Throughout the year, as you sell securities and receive your sales ticket, take the purchase ticket you received when you bought the securities [that is in a separate 3-ring binder called “Purchase Tickets”] and staple it to the sales ticket. Look at the date of sale and date of purchase to determine if the security was held a year and a day, if it has the transaction will be considered long-term, otherwise it will be short-term. Label the stapled transaction as either short or long term at the top. After you have labeled the sale ticket with the purchase ticket attached put it in a separate 3-ring binder called “Sale Transactions for the [Current Year]. Note, when you buy securities, make sure that you retain the purchase tickets in your “Purchase Ticket” binder, in addition, keep or make a copy of the financial statement for the month when the security was bought. The financial statement will also show the date and amount of money you paid to buy the security and will serve as a back-up document. Keep these financial statements in a separate folder called “Financial Statements.” For the just completed tax year, as information is being sent to you from Banks, Brokerages and Charitable institutions, place the documents in the appropriate folder. For instance, you will need to have a letter from any charitable organization where you have made a contribution of \$250 or more. Your 1099 brokerage statement will have information on the securities you sold [what you got in proceeds], along with interest and dividends. These two pieces of information go into two separate folders, so make a copy of the 1099 and place one in the folder for Schedule B and the other in the one for Schedule D. By the end of the second week in March, you should complete a spreadsheet for schedule D, listing your short term transactions and then your long term transactions. For each transaction you will give the date of the sale, date of purchase, sale proceeds [what you received net of brokerage fees], purchase cost [what you paid to acquire what was sold including brokerage fees], the gain or loss [found by subtracting purchase cost from sale proceeds]. For Schedule D, long term losses go against long-term gains to provide a net long term gain or loss,

and short term losses go against short term gains to provide a net short term gain or loss. If you have a capital loss after all gains and losses [short and long] have been reconciled, you can place up to a \$3,000 loss on your 1040 form as a deduction from taxable wage income. If you have more than a \$3,000 loss you may carry any amount above \$3,000 into the next taxable year. When you reconcile capital gains and losses on the spreadsheet, as a final step add up all your sales proceeds for the year. The number for the total sales proceeds on the spreadsheet should match to the 1099 statement from your broker giving the amount of proceeds generated in your account during the tax year. You should develop a spreadsheet for each schedule to your return – Schedule A – Itemized Deductions, Schedule B – Interest/Dividend Income, Schedule C for Business Income/Expenses, Schedule D – Capital Gains and Schedule E – Rental Income, which will go in each folder. In addition, make an extra copy of these spreadsheets and place them in the first folder in your box labeled Summary Information. By the second week in March you should have all of last year's tax information in the Rubbermaid box labeled with your name, address, telephone, and tax year. You can then take the box to your accountant or use the information in the box to do your taxes using one of the tax software packages such as Tax Cut or TurboTax.

**April:** No later than the 1<sup>st</sup> week of April you should have completed your federal and state returns. Take the first week to carefully review your return making sure that you have back-up documentation for the figures that are on the return. Sign and date the returns, make sure the W-2 forms are attached, attach a check for the amount of taxes due for the year, if you owe no tax you will need to decide whether to receive a refund or let the overpayment go towards next year's tax [if you have to pay estimates its usually better to have the overpayment go towards next year's tax], address envelopes for the federal and state return, make additional copies of both returns with you signature and date on them, and then send off the returns making sure they are sent certified return receipt to verify they have been received. You should seek to send in your returns no later than April 12<sup>th</sup>. Once you have completed last year's return, you may also need to pay the 1<sup>st</sup> quarter's estimate on this year's taxes by April 15<sup>th</sup> [for the federal return] or April 30<sup>th</sup> [for the state return].

**May:** When you receive your return receipt and canceled checks [if you owe taxes on either the federal or state returns], place these items in the summary folder of the past year's tax box. If you have made sales of securities up to this point for the current year, make sure you have placed the sale ticket with the corresponding purchase ticket in the 3-ring binder labeled Sales Transactions for the Current Year. If you made a tax estimate payment in April, when you get your canceled check place it in the envelop labeled for the current tax year.

**June:** If you are making quarterly tax estimates, you need to make a payment by June 15<sup>th</sup> for the federal return, June 30<sup>th</sup> for the state return. In June review your securities positions to determine whether you may want to adjust them to take advantage of either gains or losses. If you have already made securities sales for this tax year, add up the gains and losses to see whether you have long or short term gains or losses. If you have

sizeable gains, you may wish to readjust your securities portfolio to offset some of your gains with losses.

**July:** If you pay tax estimates, make sure you put the canceled checks into your envelope. Also, you should do a spreadsheet of your charitable contributions and a check of letters backing up those donations. If you have a business, you might also want to develop a spreadsheet of income and expenses to date to determine the extent you may be receiving more income for the current taxable year. If you are going to earn more income [i.e., you had a significant amount of income in the first half of the year], you should consider increasing your contribution to your supplemental retirement account to neutralize this additional income.

**August:** If you have created some sizeable capital gains, and there are some losses in your securities portfolio, then you should begin the process of taking losses against gains. Starting this process early can be advantageous because most of the investment firms begin taking losses during the fourth quarter of the year which tends to drive down prices even further. If you are readjusting, seek to place funds in those investments that tend to retain value in a market down turn [defensive equities/mutual funds]. You should elect to have the cost of your parking sticker taken out of pay check as a income reduction – such an election will reduce the amount of taxable income reported on your W-2.

**September:** If you pay quarterly estimates, the federal is due September 15<sup>th</sup>, the state is due September 30<sup>th</sup>. Look at your capital gains situation and the income you may be receiving in the form of business income, if your income is going to be abnormally high try to reduce taxable income by either taking capital losses and/or increasing your contribution to your supplemental retirement account.

**November:** If you are paying estimates quarterly, place the canceled checks in your tax envelope for the year. This month you will also need to decide how much to put in your flexible spending account. You should put an amount equivalent to an estimate of what you may have to pay as non-reimbursable medical or dependent care expenses. If you are taking drugs [ blood pressure, cholesterol, etc], in the very least you will want to put in \$500 to cover your deductible under our medical plan. If you are generating some decent income in the form of interest and dividends and have a need for an elective procedure [such a Lasix eye surgery], you might want to put in a deduction for next year that will cover the entire costs. If you need to take capital losses on your securities portfolio, this is the last month to complete the transaction [up to November 27<sup>th</sup>].

**December:** Review the material in your tax envelope to see that all your charitable contributions, property tax information [house and car license fees], business income and expense information has been captured. If you still received some outside income and have a need to neutralize it, consider calling the Blackhawk county assessor's office and finding out what the property taxes will be for the next year. Prepay next year's property

taxes by check {put down the plat number, property taxes for [next year] in the memo line} and send it off before December 29<sup>th</sup>. When you get the canceled check back in January put it in the envelop – since you paid the property tax in this year it is considered as a deduction in Schedule A for the year in which it was paid. The last week in December, you can get a head start on this year’s tax filing by buying the Rubbermaid box and preparing your folders rather than waiting until January.