

# POST SEASON TAX PLANNING

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With the amount of time a lot of us put into compiling information for our tax returns, we seldom stop to analyze what the information might contain. The excerpts below are from a form letter included in a "Letters Tool Kit" that Commerce Clearing House (CCH) provides to their subscribers.

*With a little analysis of last year's tax return and some comparison to prior years' tax returns, you can learn some important lessons about your financial well-being.*

***Look at the Picture:*** You may already use your checkbook to extrapolate one, three or five months into the future to ensure that your income will cover the bills. Why not use your tax return to extrapolate one, three or five years into the future to develop a plan that will cover your life?

***Investments:*** At some point in your efforts over the years to accumulate a savings nest egg, you will need to consider diversification - the process of putting your money in the right kind of investment vehicles to satisfy your personal risk strategy and achieve your goals. Looking at your tax return will help you decide whether the investments you now have are the right ones for you. If you are in a high tax bracket and need to diversify away from common stocks, for example, looking into tax-exempt bonds might help, especially if you have state income taxes to worry about, too.

***Reviewing Schedule D covering Capital Gains and Losses from last year's return and from the past three or four years can be an eye-opener for many people. Did you hold stocks long enough to be entitled to the long-term capital gains rate? Did you try to balance short-term gains with short-term losses? Are you bouncing from one investment trend to another without a long-term investment plan that achieves long-term needs? Are your mutual funds "tax smart"? Become familiar with different types of banking institutions and their products. Find out about CDs, money-market funds, government securities, mutual funds, index funds, and sector funds and how they interrelate with the determination of your tax liability each year. You may want to put that knowledge to work in your investment strategy.***

***Trying to implement this type of a five-year plan may seem difficult at first. However, just by looking at your tax return you can start the critical planning that can lead you to financial independence and a comfortable retirement.***

***Borrowing patterns:*** A look at your interest deductions can also pinpoint ways for you to let Uncle Sam in effect pay off some of your loans with tax deductions. Should you have more home-equity interest rather than credit card debt? Are you maximizing or overusing the advantages of borrowing on margin? Consumer debt is a necessary way of life these days for many taxpayers, but smart borrowing on an after-tax basis can help "tame that tiger."

***Medical costs:*** Should you be taking advantage of the medical expense deduction? Many people assume that with the 7.5 percent adjusted gross income floor on medical expenses that it doesn't pay for them to keep track of expenses to test whether they are entitled to itemize. But with the premiums for long-term care insurance now counted as a medical expense, some individuals are

**discovering that, along with other health insurance premiums, deductibles and timing of elective treatments, the medical tax deduction is theirs for the taking.**

**Retirement planning: Don't forget to protect for eventualities. Are you maximizing the amount that Uncle Sam allows you to save tax-free for retirement? A look at your W-2 for the year, and at the retirement contribution deductions allowed in determining adjusted gross income should tell you a lot. Should your spouse set up his or her own retirement fund, too? Are you over-invested in tax-deferred retirement plans and therefore facing a large amount of tax each year after you retire?**

**Remember, too, that a defined amount of retirement income will only be available for a definite amount of time after you retire. If you are spending down your retirement savings that are making a five percent return at ten percent per year, those savings will be exhausted in a finite number of years. Do the analysis and try to save enough so that, between Social Security and your savings, you can keep your annual withdrawals to under five percent per year and still meet living expenses.**

**The Big Picture: Clients often ask their accountants, "How long should I keep my tax returns?" It depends on how much of your own financial history you want to see documented. The tax code requires retention of tax returns for a minimum of three years but the more history you have of your financial progress - or regress - over the years, the more information you will have for your analysis for the future.**

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