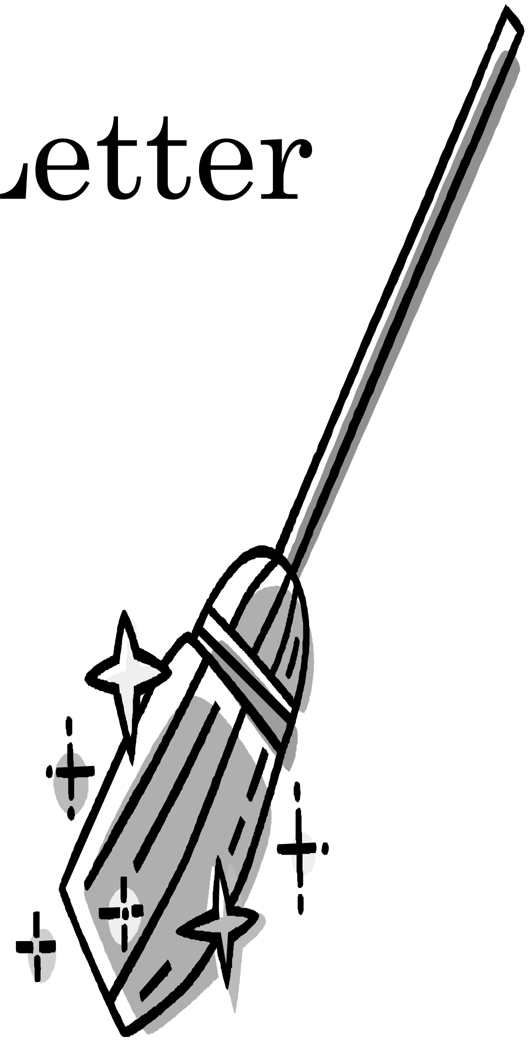
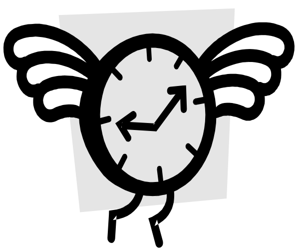
Clean Sweep Letter



Time for a Clean Sweep



Your tax return is a good window into your total financial picture.

You can clean up your financial and tax life by reviewing your tax return. As you prepare to put the forms away, take a few moments to assess your situation:

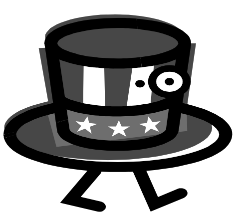
Will your income or expenses change this year?

Did you like last year's results?

Have you ever taken a good look at your tax return? Maybe now's the time.

You can use this handy guide.

Did you get a large refund?



Is Uncle Sam walking away with an interest-free loan from you?

Or…

Is he collecting interest on your deficiencies?

<u>If you owed so much that you paid penalties:</u>

It might be wise to change your withholding at work by submitting a new W-4 with **fewer** dependents. If you are married, and claiming Married 0, you can switch to the single rates. For most taxpayers, Married 0 is approximately equal to Single 3. If you know how much extra you want withheld, and want to leave your dependents the same, you can indicate an extra amount on line 6 of Form W-4 to withhold each period.

If you pay estimated tax, and expect this year to be similar to last, make sure your payments at least equal last year's tax.

<u>If you got a large refund:</u>

Did you put the money to good use, or could you have used the money last year in a better way?

If you increased your exemptions on Form W-4, the extra money could be used to meet your current monthly payments or buy a few extra tanks of gas. If making ends meet isn't important, you could fund more retirement or open an investment account, thus enhancing your financial picture.

The average Federal tax refund for tax year 2006 was over $2,500. That's over $200 per month that could be put to better use.

Take a look at your investment earnings.

Lines 8, 9, and 13 on Form 1040 are a snapshot of your current investment portfolio.

Are they small or nonexistent?

Perhaps a withholding change can help you build your nest egg. By increasing your exemptions on Form W-4, and depositing $50 per month into a 5% savings account, you will have $3,455 saved at the end of 5 years.

Did you know: Estimates indicate that 10.5 billion in loose change is sitting idle in American households? If you put just $2 in loose change into the 5% savings account each week, you would have $1,353 in 10 years.

Did your investments create a tax burden?

It might be wise to rebalance your investment portfolio: Dividends and long term capital gains are taxed at a lower rate than interest, so switching to dividend-bearing stocks or tax-efficient mutual funds could decrease your tax burden.

Check to see if you have any losers that could be invested more wisely. You can offset your capital gains, plus $3,000 of other types of income, with stock losses each year.

Did you pay AMT?

Check line 45 of your Form 1040. If there is a number on line 45, you are a victim.

The Alternative Minimum Tax (AMT) was created in 1969 when 155 taxpayers with income over $200,000 paid no tax. Congress wanted to make sure rich taxpayers couldn't escape tax with deductions and credits. Now, almost 40 years later, the AMT is affecting millions of ordinary taxpayers.

Why is that? The AMT was never properly adjusted for inflation, and what was considered rich in 1969 is middle-income now.

The AMT strips away exemptions and some deductions and credits, and then calculates a flat tax. Short of moving to a low taxed state, there is little a taxpayer can do to avoid AMT.

Congress realizes a problem exists, and has managed to somewhat minimize its effect with short-term fixes. A long-term fix is needed, and there is currently a bill addressing the problem. If you were an AMT victim this year, you should call your Congressperson to register your support for AMT repeal.

Did you deduct a business loss on line 12 of Form 1040?

The mere fact that you lost money on a business is a negative factor in your overall financial picture.

It could also be a negative factor in your tax picture. Incorrect deduction of hobby losses amounts to $30 billion in lost tax revenue a year, according to IRS estimates. With Congress and the IRS hot on reducing revenue losses, you should be aware that your business could be reclassified as a hobby. To get the point across, the IRS created a special fact-sheet, FS-2007-18, to highlight the problem.

To determine whether your business is a hobby, the IRS asks you to consider the following factors:

- Does the time and effort put into the activity show intention to make a profit?
- Do you depend on the income from the activity?
- Have you changed your methods of operation to improve profitability?
- Do you have the knowledge to make your business successful?
- Have you made a profit in the past?
- Can you expect a profit in the future?

Were you phased out of deductions and/or credits for IRAs, student loan interest, tuition, or children due to high income? Many tax deductions and credits phase out at certain income levels.

What can be done to reduce income to qualify for tax breaks?

The best way to improve your present tax situation and your future retirement is by deferring more into your company's retirement plan. Increasing your retirement contribution will lower your income used to calculate the phase-outs.

Self-employed? You can put up to 25% of your net income into a SEP plan, thus reducing your income for each dollar contributed.

You can also offset your income with capital losses of up to $3,000 each year, as explained earlier.

Signing up for the Flexible Spending Account (FSA) at work can enable medical deductions that would not otherwise be deductible. It also reduces the income used to calculate the phase-outs.

No company FSA? Perhaps you could qualify for an HSA (Health Savings Account). You must be under 65, covered by a high-deductible health plan, and have no other insurance to set up an HSA. You can contribute up to your health plan deductible in the HSA, and deduct the payment. This gets you a medical deduction without having to itemize. Withdrawals from the HSA are not taxed if used for medical expenses.

If you have children in day care, you can further reduce your income by signing up for pretax dependent care benefits.

You might also be able to contribute to a traditional IRA. The reduction that this contribution makes in your income may qualify you for the Retirement Income Savings Credit.

Did you deduct charitable contributions on Schedule A?

The rules for deducting charitable gifts were tightened in 2007, and the IRS is paying attention. Congress apportioned extra for audits as a part of the IRS's Tax Gap Initiative.

Documentation is the key word.

Cash donations need to be substantiated with a receipt, cancelled check or a bank record to get a deduction. If you are still dropping cash into the collection plate at church, it would be a good idea to start writing a check. Small donations that you give to people who come around to your door can really add up. Remember to ask for a receipt. If you keep an envelope handy to collect the receipts, you'll have the documentation that is needed to satisfy IRS recordkeeping rules.

Non-cash donations now need to be in at least good condition. Items of minimal value, such as socks and underwear could be disallowed. Make sure you get a receipt and document your deduction in detail. Make a list of your donated items with the fair market value and original cost. A photograph of the donated goods could also be helpful. And, make sure you get a receipt.

You can make a clean sweep of your closet and improve your tax situation at the same time.

Invest your tax savings in a Roth

You can improve your future financial picture by investing the money you saved using the above strategies in a Roth IRA. Although contributions to your Roth are not deductible, the money grows tax free and will never be taxed as long as the rules are met.

If your income is over $160,000 (MFJ) or $110,000 (Single) you have been phased out of Roth IRA participation. Did you know that after 2009, taxpayers with any amount of income can convert a traditional IRA to a Roth? If you do not presently own a traditional IRA, making non-deductible contributions each year until 2010 will enable a largely tax-free rollover.

There is no income limit, however, on the new Roth 401k. More employers will be adding this benefit to their retirement packages now that it has been made permanent by law.

Record retention guide

Filing your tax papers away can be a chore. Perhaps you need to make a clean sweep of the file cabinet.

The IRS advises that you keep your tax returns forever, but much of the supporting documentation can be destroyed after the statute of limitations for the tax year is over (three years in most cases). You can use the following guide to help make your decision.

1 YEAR

Copies (misc.)

Correspondence (routine)

Duplicate deposit slips

Stenographer's notebooks

3 YEARS

Appointment books

Correspondence (general)

Employee personnel records (after termination)

Insurance policies (expired)

Internal reports (misc.)

Petty cash vouchers

5 YEARS

Invoices

Loan documents

Notes receivable ledgers and schedules

Purchase orders

7 YEARS

Accident reports and claims (settled)

Accounts payable ledgers and schedules

Bank statements

Brokerage statements

Cancelled checks (misc.)

Employee expense reports

Employee payroll records

Inventory of products, materials and supplies

Safety records

Sales records

Scrap and salvage records

Stock and bond certificates (cancelled)

Subsidiary ledgers

Time cards and daily reports

Voucher register and schedules

Voucher for payments made

PERMANENTLY

Adoption papers

Articles of incorporation

Audit reports of accountants

Birth certificates

Bylaws

Capital stock and bond records

Cancelled checks (important payments)

Cash books

Charts of accounts

Citizenship papers

Contracts and leases (expired)

Contracts and leases (existing)

Copyright, patent and trademark registration

Death certificates

Deeds, mortgages and bills of sale

Depreciation schedules

Divorce decrees, alimony and child custody agreements

Financial statements

General and private ledgers

Insurance records (existing)

Internal audit reports

Journals

Military records

Minute books

Property appraisals and records

Retirement plan information (IRA, 401(k), etc.)

Savings bond registration

Tax returns

Training manuals

Union agreements

W-2/s/proof of income