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## Getting Ready for Tax Season 2007-Individuals

It is time to start getting ready for tax season again. Earlier is better when it comes to working on your taxes. By getting a head start on tax preparation, you avoid the last-minute rush, when many filing mistakes are made. The sooner the tax agency gets your return, the sooner it can process it and get your refund on its way to you.

By knowing what information you need, digging out those documents now and keeping track of all the tax-related account statements you've received, you'll immediately realize if you're missing anything or if something needs to be corrected. In either case, you still have plenty of time to track down the proper documentation - saving you time, anxiety and possibly money when you file your return.

Here are a few hints to help you get organized so that your tax filing experience is as smooth as possible:

**Gather the tax documents needed for filing your 2006 tax return** —First of all, make sure that all your 2006 employers, clients and financial institutions have your correct address. If you've moved, or changed postal boxes, be sure those folks have your present address in time to get that flood of W-2s, 1099s, and other information forms heading your way.

Get your *W-2s* together (If you do not receive a *W-2* from an employer and you cannot contact the employer because it has gone out of business or disappeared all is not lost. You can use your pay stubs or other records to reconstruct the various items of income and withholding and file Form 4852 "Substitute for Form W-2 Wage and Tax Statement" with your federal and state tax returns. In such a situation you need to consult a tax professional) to report wages, your *1099s* to report interest and dividends, your *1099Bs* for reporting stock and bond sales, and your *1098s* for deducting your interest and taxes.

The employers and 1099 providers must mail them out by Jan. 31st. If you do not receive all your information returns by February 15th, contact the employer, bank, broker, or whoever and arrange to receive a duplicate copy. Keep a **copy of last year's return** too with your other documents.

Get the **substantiation for charitable contributions** of \$250 or more that you made last year. A cancelled check isn't enough; you need a written receipt from the charity in order to take a tax deduction.

If you donated a vehicle, boat, or airplane to a charity, your deduction will be limited to what the charity sold your item for. The charity should give you Copy B or C of IRS Form 1098-C to substantiate your deduction.

Don't forget the **tax identification number** of the person or business that takes care of the kids while you're at work. You'll need it if you file **for the child care credit**. You should receive a statement from the care provider that includes his or her tax ID number, as well as the amount you paid, so you can use it to claim the credit.

**Work expenses can cut your taxes-** Did you look for a new job this year? Kept your job, but had to shell out for work-related items and never got paid back? Move to take a new job?

All of these situations can help reduce your tax bill, as long as you've got the documentation. In the case of job searches, find those receipts for anything related to your hunt - as long as you're looking for work in the same field.

If you kept your current job, but had to pay for some items that your boss didn't reimburse you for - travel expenses, uniforms, union dues, subscriptions -- then these can be deducted as miscellaneous items on Schedule A. Again, you'll need the receipts, so go through your paperwork collection carefully.

**Keep Records-**On the paper side, put together a folder that includes the records you'll need in the future to determine the **basis of your home** (Reminder: The "basis" of your home is the cost of acquiring it, whether you pay cash, use mortgage financing, or a little bit of both. For real estate, the "basis" can include other items, such as recording fees and certain closing costs) and **investments**. Please *review your* investment statements to see if it includes information in the back show either "**cost basis**" or "**realized gains and losses**." If you have trouble locating this, contact your financial institution for help.

**Track down Social Security numbers.** The IRS tracks every taxpayer through a Social Security number. Do you have any dependents -- children, parents -- that you'll be claiming? Then you'll need their social security numbers. This includes everyone, even *infants*. If your kids don't have their numbers yet, contact the Social Security Administration immediately.

If you have changed your last name as a result of *marriage or divorce* during 2006 make sure to notify the Social Security Administration of the change before filing your tax return. You do this by submitting a Form SS-5 to request a new Social Security card.

The IRS is very picky about matching names to Social Security numbers. If a Social Security number and name reported on your tax return does not match exactly the name in the files of the Social Security Administration the IRS will remove the name and dependency exemption of that person and automatically recalculate the tax liability as Head of Household, Married Filing Separately or Single.

A missing/wrong Social Security number for any person listed on your return could cost you. The IRS could delay the processing of your return, slow down any refund, or even disallow a credit if you don't have the identification numbers to support it.

**Errors on W-2s and 1099-Rs** – Employers frequently make errors on W-2s (wages). The most common error we see is withholding to the incorrect state. Please change the state codes on the withholding and have your employer correct this if there is an error. 1099-Rs are retirement plan distributions. The common error we

see is that rollovers are not marked as such, which confuses the IRS and must be rectified in time.

**Form 1099-DIV-** Insurance company and telephone company dividend checks mailed out in December or January often have a Form 1099-DIV attached. Do not separate the check and throw out the 1099-DIV by mistake thinking it is merely a check-stub. Conversely, check any 1099-DIV you receive from an insurance company or telephone company to see if there is a dividend check attached. Many times it is found that the checks attached to 1099s are given to tax professionals by the clients at tax time.

**There is still time to make 2006 contributions.** If your 2006 IRA wasn't fully funded by December 31, 2006, and you make any IRA contributions prior to April 16, 2007, designate to the bank or trustee that these 2007 contributions are for 2006 (up to the maximum allowed). You can then deduct these amounts on your 2006 return for a quicker tax benefit.

Even if your tax situation isn't complicated, there's still documentation the Internal Revenue Service demands. But tax filing doesn't have to be an ordeal. It can be less frustrating and less time-consuming if you have all the material at your fingertips.

Once you know what data you'll need to file your taxes you've taken a big first step in the process of filing your tax return. It is very helpful if you sort your documents and ensure that you are not providing extraneous information or the same information multiple times to your tax professional. By being prepared, you'll be ready to file your return at the earliest possible moment.

Don't hesitate to ask for help from your tax professional; it's deductible!

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything or for assistance with any of your tax, business, or financial strategy concerns, contact your tax adviser.

We appreciate and value your feedback very much. Let us know how we can help make this communication vehicle and the learning resource more valuable to you.

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