TAX RESOLUTION SPECIALISTS

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# Taxing Times

TAX RESOLUTION SPECIALISTS

## House-Related Write-Offs

**Question:** What house-related expenses can we write off on our taxes?

**Answer:** You get a ton of tax breaks when you own a home, which makes home-ownership a bit more affordable. The biggest is the tax deduction for mortgage interest. You can write off the interest on up to $1 million in debt to buy or substantially improve your first or second home.

The deductible interest can give you big savings at tax time—those interest payments could cut your tax bill by $9,053.

You can also write off your property taxes annually and the points paid in the year you bought the house -- even if the home seller paid them for you. If you paid two points (each point is 1% of the loan) on a $500,000 loan, you could write off $10,000 in the year you buy the house, which could lower your tax bill by up to $2,800.

You can also deduct the points you paid when you refinance, but you must spread that deduction over the life of the loan.

And you can deduct the interest on your home-equity debt every year, no matter what you use the money for -- which can give you a low-interest alternative to a car loan or student loan. You can't deduct closing costs but you can use them to increase your cost basis when you sell.

But the good news is that most people don't owe income taxes on their home-sale profits anymore. As long as you've lived in the house for at least two out of the past five years, you can exclude $250,000 in home-sale profits from your taxes if you're single; $500,000 if married filing jointly.



## 9 Ways to Stretch Your Paycheck

1. Take charge of your salary. Get organized, and develop a spending plan. Keep it simple — track money earned and spent. At month's end, compare. Where can you cut and save?
2. If the opportunity exists, work overtime or an extra shift at least once or twice a month.
3. Participate in a 401(k) or 403(b) plan. Your contributions are made with pretax dollars. You save for the future while reducing today's taxable income.
4. Set up a tax-advantaged IRA or Roth IRA account to build up your retirement savings.
5. Take full advantage of all the employer-sponsored benefits such as flexible spending accounts, retirement plans and direct deposit to save time and money.
6. Participate in an employee-sponsored health plan. These plans allow you to pay for health-care premiums on a tax-free basis.
7. Save your raise. The next time you get a raise at work or a tax refund, consider directing half to savings. If you're not use to the money, you won't miss it.
8. Get paid weekly or biweekly? Then several times a year, you get an extra paycheck in the month. Put it in a savings account or put it in your rainy-day jar.
9. Rather than spending that 3 percent cost-of-living raise, bank it. Then the next time you get a raise, increase your disposable income by the amount of your last raise.

## Ken's Corner

Thank you to all who have supported us these past three years to get us to where we are today; from a handful of customers I took care of in my living room, to an office building serving in excess of 400 individuals, small and large businesses in Maine and throughout the US. I look forward to servicing you in the years to come as we all grow together. Have a wonderful Holiday Season and may God richly bless you all.

## Trivia Question


*"If you get up early, work late, and pay your taxes, you will get ahead—if you strike oil."*

1. *Leon Hess, founder of Hess Oil Co.*
2. *J. Paul Getty, founder of Getty Oil Co.*
3. *Philip Anschutz, former oil man and current owner of several sports franchises*
4. *John D. Rockefeller, founder of Standard Oil*

*See page 2 for the answer*

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# Letter from the IRS?

You open your mailbox and grab the stack. You sift through the ads and credit-card solicitations. Out pops a serious-looking envelope from the U.S. Department of Treasury, Internal Revenue Service. You weren't expecting anything. It's not that time of year. You save the letter for last. After pitching everything else you open it nervously.

You owe $4,506. Plus interest. You have a month to pay! Uh-oh. . . .

Now what? The Feds are after you. What do you do? How could you, after all that recordkeeping and preparation, still owe this money? Your entire refund, and then some?

Nine pages of detail on "Adjustments to Income," "Tax and Credit" and "Miscellaneous Issues." Words like "intimidating," "shocking," and "depressing" hardly covers it. It's a real financial earthquake, particularly for those among us who work hard to do the right thing.

### So what should you do?

1. **Don't panic**. It's natural to bow to the pressure and simply write the check. Call a professional. A $100 consultation fee can save you thousands.
2. **Read carefully**. Once you get your emotions in check, read the letter carefully. A professional view is strongly recommended.
3. **Consult your tax adviser**. OK, for some of you this may be Step 1 or 2. If your situation is simple and straightforward, your adviser may handle it for you for free, or for a minimal charge.

Once your adviser has addressed the letter, it may take up to 12 weeks for a response. A call to the IRS is recommended if you haven't heard from them. But give it at least 90 days.

### Bottom Line

Please know that every situation is different, but if you keep good records, you should be able to resolve errors and documentation problems, and if you owe tax, you owe tax.

So if the IRS writes you a letter, don't run for the hills and hide. I promise you, they will not go away. Address it immediately!

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### Answer to Trivia Question

J. Paul Getty said: *"If you get up early, work late, and pay your taxes, you will get ahead — if you strike oil"*

Getty (1892-1976) was born into a family already in the petroleum business. He is said to be one of the first people in the world to amass a fortune of more than $1 billion. An avid collector of art and antiques, Getty's collection now forms the basis of the J. Paul Getty Museum in California.