

Taxes 101: What You Know May Impact What You Owe

"In this world," American founding father Benjamin Franklin once wrote, "nothing can be said to be certain, except death and taxes."

If taxes are indeed as inevitable as Franklin suggested, how do we make the best of our status as taxpayers? It starts with understanding the basics: the nature of the tax code and the responsibilities it bestows upon taxing individuals, couples and business entities, plus the advantages that come with being proactive about fulfilling those responsibilities, and the damage that can result from not meeting them. Here, courtesy of the Financial Planning Association (www.FPAnet.org) in Denver, Colo., are a few general rules of thumb to help you stay in the taxman's good graces:



RULE 1: If you earn, you probably owe. If you have an income, chances are you'll need to pay the federal and/or state government a share of the money you take in. In many cases, your employer will take what you owe out of your paycheck and send it to the government directly, a process known as "withholding." If you're self-employed, however, in all likelihood you need to pay your own taxes (income tax, social security tax, and Medicare tax) to both the state and Uncle Sam, typically in the form of quarterly estimated tax payments.

RULE 2: Fulfill your responsibilities on time. Taxpaying U.S. citizens are obligated to file annual state and federal tax returns, usually by a deadline that falls on or around April 15 each year. Certain business entities and the self-employed are not only obligated to file tax returns, they often must make quarterly estimated tax payments in. Individuals and businesses that fail to meet their obligations (such as by miscalculating or underpaying what they owe, or by failing to submit payments or returns by the required deadline) could face, interest, penalties, and plenty of other red tape. "This stuff can really haunt you if you're not careful," said Amy Jo Lauber, CFP® of Lauber Financial Planning in West Seneca, N.Y. "And who needs more stress in their life?"

RULE 3: Enlist an expert. "A good CPA (certified public accountant) is worth his or her weight in gold," said Lauber. A relatively modest investment in an accountant could pay off many times over, not only by identifying ways to save on your taxes that you may never have considered (obscure or expiring tax credits, maximizing retirement contributions to minimize tax obligations, etc.), but also by helping you avoid issues that could raise red flags with a tax agency. Having a capable CPA is especially important for business owners, adds Lauber.

RULE 4: Take advantage of what the tax code offers. Embedded in federal and state tax laws and policies are countless provisions (tax deductions and tax credits) that, when capitalized upon, can have a major positive impact on your tax bottom-line. These provisions change frequently and can be complex, more justification to enlist a CPA.

RULE 5. Don't withhold more (or less) than you need to. Sure, it's nice getting a tax refund back from the government. But getting a refund means you've essentially been giving the government an interest-free loan. You're better off keeping that money in your own pocket and putting it to constructive use — to save toward retirement or a big purchase, to pay down debt, etc. On the other hand, if not enough is withheld from your paycheck over the course of a year, you could end up with a unexpectedly painful tax tab at year's end. Either way, it's wise to work with your employer to be sure they're withholding the proper amount.

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