

Good Tax Questions: Part II

By Charles Clar

Good Tax Questions: Part II

Charles Clar
okaycharles@yahoo.com

All About Taxes <http://all-about-life.com/page463954.htm>

Please use freely. All I ask is that you include everything in between the two borders.

Please do email me with publication/forwarding particulars. It's neat to know who's benefitting from this information!

This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.

Good Tax Questions-Part II

Here are some more tax basics that are useful as we move into the second half of 2001.

Question: What is a tax credit?

Answer: A credit is like a coupon the government gives you to pay your taxes. Credits reduce, usually one for one, the amount of tax you have to pay.

Question: What is a tax deduction?

Answer: A deduction is a way the tax code allows you to lower your taxable income. Remember that you pay tax on your taxable income, not your adjusted gross income. Deductions lower your taxable income, meaning you'll be taxed on less money.

Question: How can you be prepared for an audit?

Answer: Keep all your records. This will help you breeze through an audit. By all means, take every deduction to which you're entitled. Don't let the government intimidate you---ever! Consult with an experienced tax preparer when in doubt.

Question: How long should you keep the backup to your tax returns:

Answer: IRS can send a notice of audit for up to three years from the date you file, unless fraud is involved in which case all bets are off. So if you filed your 2000 return on April 15, 2001, IRS can

send a notice of audit until April 15, 2004. Then you're home free! State requirements vary so check with someone who knows about your state's audit period rules.

For as long as the audit period is open, you should keep any paperwork that shows income (like W-2s, 1099s, or statements from your broker) or supports deductions (like 1098s, canceled checks, and receipts). Make certain you keep all bank statements.

It's a good idea to keep old returns indefinitely (for lenders, etc.).

Question: When should you do tax planning?

Answer: Most people freak out and do it in December. For the most savings, it really should be done throughout the year. You should be aware of the tax consequences of all your financial moves over the course of a year. It won't take that much time if you do it in stages and/or with each financial decision you make. Believe me, this can save you a lot of money come April 15.

Question: Are tax-free investments always better than taxable investments?

Answer: Absolutely not. If your taxable investment has a high enough rate of return so that you still end up ahead even after you pay the tax, then you should consider going with that one. You need to learn how to compare AFTER TAX rates of return for taxable versus non-taxable investments.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

You can find an abundance of help at my website:

<http://all-about-taxes.com>

Or just send me an email.

<mailto:Charlie@All-About-Taxes.com>

PLEASE subscribe to my ezine at

<http://groups.yahoo.com/group/all-about-life>

Get-Articles.com : 1000's of reprintable business and internet marketing-related articles.

[Submit your article for reprint.](#)