

5 Common Tax Myths That Are Costing You A Bundle

By Wayne M. Davies

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This article is based on the following 2 assumptions:

1) You are a small business owner or self-employed person (including home-based businesses and part-time entrepreneurial activities).

2) You don't like to pay taxes. In fact, whenever you think about paying taxes, you get so mad you end up "all lathered up and nowhere to go."

Now, if paying taxes makes you so upset, what have you done about it lately?

Why was your tax bill so high last year?

You paid too much tax last year (and the year before that, and the year before that . . .) because you have probably been an innocent victim of many popular myths about taxes.

Here they are. Get rid of them or you'll be stuck paying too much tax forever!

Tax Myth #1: "I don't make enough money to worry about reducing my taxes."

Nothing could be further from the truth. People at all levels of income can pay less tax.

Tax reduction strategies are not just for the rich and famous. No matter how much money you make, you can pay less tax than you currently pay.

In fact, even if your business (or part-time entrepreneurial venture) has a loss, you can use that loss to offset other sources of income, such as wages from a "regular" job, your spouse's wages, investment income, rental income, other business income.

And if your business loss is so great that it more than offsets all your other income, you can take advantage of a special rule that lets you: a) Carry back that excess loss to the 2 prior years, thereby entitling you to a refund of taxes you already paid for either (or both) of those 2 prior years; and/or b) Carry forward that excess loss to the next 20 future years, so that any income you earn in the future will be reduced by that excess loss.

Tax Myth #2: "Tax reduction strategies are too complicated for me to use."

Again, total and complete hogwash. There are plenty of ways for you, the average American, to lower your taxes.

Tax reduction is not just for the wealthy who pay high-priced attorneys to finagle their way out of paying taxes with sophisticated tax-avoidance schemes, like off-shore trusts and foreign bank accounts.

The average Small Business Owner has plenty of tax reduction strategies at his/her disposal. You just have to know what they are and how to use them.

Tax Myth #3: "I had my return prepared by an Accountant, so I know I paid the right amount of taxes."

There are thousands of excellent, hard-working accountants doing a great job. And if you use a tax professional, maybe he/she has done everything possible to reduce your taxes to the legal minimum.

Based on my own experience, however, I'm convinced that many

taxpayers who use professional tax preparers are overpaying their taxes, sometimes by thousands of dollars each year!

Why is that? Well, there are many reasons. The most obvious one is this: Many professional tax preparers are just that: tax preparers and tax preparers only.

A good tax accountant may know how to prepare a tax return in his/her sleep. He knows the forms backwards and forwards. He knows what numbers go on which form perfectly.

But that's it. That's all he/she knows.

A good tax preparer is not necessarily knowledgeable in tax reduction strategies. There's a big difference between a good tax preparer and a savvy tax reduction specialist.

When you look for a good accountant, make sure you find one who doesn't just "do the returns", send out a bill and say "Next, please."

Tax Myth #4: "My tax situation is OK because my BLANK (fill in the blank with a family member or other "good friend") takes care of my taxes."

There are various versions of this myth. Do any of these sound familiar?

"My brother-in-law takes care of my taxes."

"My uncle takes care of my taxes."

"My college buddy takes care of my taxes."

And of course, the same problem exists with Myth #4 as Myth #3. Even when someone you know and trust does your returns, how do you know that this person is a good tax reduction specialist?

And often, many of these family members or "buddies" are not even professional tax preparers. This person just happens to be "The Family Accountant. Just like every family has one person who knows a lot about cars (or mutual funds, or carpet cleaning, or whatever), many families have someone who "knows enough to be dangerous" with regard to taxes.

And even if your "Family Accountant" is a professional tax preparer, he's probably not charging you for the return. He's doing you a favor. He prepares your return; you change his oil.

My first reaction to this kind of situation (when someone is getting his/her return prepared for free) is this: You get what you pay for! When a family member does your return "for free", how much attention can he give to your need for

tax reduction strategies? Probably very little.

Tax Myth #5: "My tax situation is OK because I prepare my own returns."

If this statement applies to you, then perhaps you are a "do-it-yourself-er". Money is tight and you are used to doing things yourself anyway, so why not save a few bucks each year and do your own returns?

So you've spend countless hours over the years pouring over the forms and instructions, trying to figure out how to do the returns. And you've done OK. No letters from the IRS, no audits. Hey, pat yourself on the back!

And now that tax preparation software is so readily available and affordable, doing your own return is a breeze! Just key in a few numbers here and there, push the print button, and presto, you've got your return done in record time! And now you can even e-file your return with your own computer.

Have you ever heard of the book, "The Millionaire Next Door" (by Thomas J. Stanley and William D. Danko)?

This book describes the common characteristics of millionaires in our country. My favorite millionaire characteristic is this:

Millionaires become millionaires by minimizing their taxes and getting their tax & other financial affairs in order.

Now comes the "Million Dollar Question": How do you think millionaires get their tax affairs in order? By doing their own tax returns? Of course not! Millionaires NEVER do their own tax returns! They have more productive things to do with their time.

Instead, what millionaires do is spend time and money each year on tax planning and tax reduction strategies, not figuring out what number goes on which line of Form XYZ.

So my challenge to you is this: What are you going to do this year to reduce your taxable income?

Are you a believer in any of these 5 myths? Now's the time to get rid of them, once and for all.

Your financial well-being depends on it.

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Resource box:
Wayne M. Davies is author of the new eBook, "The Tax

Reduction Toolkit: 29 Little-Known Legal Loopholes That Will Reduce Your Taxes By Thousands (For Small Business Owners and Self-Employed People Only!) Don't file another tax return until you visit:

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