

Taxes: Get Help or Go It Alone

Mary Rowland Personal Finance Column – January 2008

The big financial question for January: Should I get help to prepare my taxes? Whether you should do your taxes this month is not a question. Imagine the month of April approaching, then the dreaded April 15: Friends are groaning about how they haven't started their tax preparation, how they'll be forced to file for an extension to get extra time.

But for you, taxes settled back in January, April 15 can be a day of pleasure. You might go to the movies or spend the day working in your garden. Not only will you feel more comfortable by filing early, but getting your 2007 tax information in hand is essential if you or your children are applying for financial aid for college or if your income improved significantly and you plan to buy a house or rent an apartment, for example.

But should you go it alone? Or should you get help? As a busy education professional, you simply may not have the time to do your taxes solo. And much depends on your own situation. If you are an employee, you have no investment income, and you do not plan to itemize your deductions, you probably don't need help. Your tax information will consist of your employment income reported on the W-2 form from your employer. If you're using the standard deduction, there's very little to calculate.

For Younger Members Starting Out

If you're in your 20s or 30s, just getting your career under way, you may well fall into the "no help needed" group described above. But if you had any big transitions last year, if you got married, bought a home, started a side business, moved to another state, consider going for help. Big life transitions can result in hidden tax deductions—or hidden taxes. If you're confronting something for the first time like the marriage penalty, real estate deductions or the expenses of setting up your own business, get help.

For Mid-Career Members

If you are in your middle years—40s and 50s—your tax situation has no doubt grown more complicated. Perhaps you live in California and experienced a large casualty loss in the recent fires. Maybe you or someone in your family suffered through a major illness with unusually large medical expenses and bouts of unemployment. Losses from casualties and medical expenses are deductible only after they exceed a certain floor of your adjusted gross income. You need help to make certain you are not missing any legitimate deductions.

For Pre-Retired and Retired Members

Retirement is perhaps the biggest life transition and few people realize that until they've made irreversible decisions. Perhaps this is a time in your life when you need not just a tax preparer but a financial planner.

In your early retirement years, you face the Social Security earnings test, which means a portion of your Social Security benefits will be deducted if you earn a certain amount of income. You must make a decision on when to start your benefits because all future benefits will depend on that decision. Make a decision, too, about whether to continue working. Social Security rules have extended the normal retirement age at which full benefits are available. You can also increase your benefits by working longer.

You should also consider consulting a professional if you completed real estate transactions in 2007 such as buying or selling your primary residence or a second home. Current tax law allows you to deduct the gain on the sale of your principal residence for tax purposes. This is no longer a one-time deduction. Homeowners who meet certain criteria may use the deduction throughout their lives.

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Retirees must also make decisions about beginning withdrawals from their retirement plans. You are permitted to begin taking the money in your IRA without penalty at age 59½ (or age 55 in certain circumstance.) You must begin minimum distributions at age 70½. Withdrawing retirement money in the most tax- efficient way usually requires the help of a professional.

But no matter your age or experience, don't hesitate to go to a professional if you're simply overwhelmed by tax forms and receipts and loose scraps of paper floating everywhere. Anxiety need not be part of tax preparation. But before you go to the pro, gather those papers together and write a summary of income and expenses or you'll be paying a lot to have a tax preparer do that for you.

Mary Rowland is a nationally known business and finance writer. The former personal finance columnist for The New York Times and former co-host of a nationally syndicated radio show, Ms. Rowland is the author of several investment books and speaks regularly to consumers and financial planners about investing and personal finance.