Aim High in 2009—But Make Taxes Top Priority!

Mary Rowland Personal Finance Column – January 2009

Is there anyone in the U.S. who is not looking forward to a new start in 2009? What a year we've finished! We can congratulate ourselves on surviving the myriad problems of 2008, including the near-collapse of our economy. Rarely has a new year held such promise to provide a sharp break from the past. Sure, it's going to be a tough year. But it's time to start building—and rebuilding.

Still, though, we have to pay our 2008 taxes. This is the time to get all the "old year" business out of the way. First decide whether you can do your 2008 taxes yourself or whether you need help, and, if so, what kind of help.

Not only will you feel more optimistic if you get your taxes out of the way this month, but getting your 2008 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? 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.

If you're in your 20s or 30s, just getting your into your career, you may well fall into this group. But if you had any big transitions last year—if you got married, bought a home, became self-employed, moved to another state—consider getting 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.

If you are in your middle years – 40s and 50s – your tax situation is probably 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. Or perhaps someone got caught in the massive job layoffs and has endured a bout of unemployment. Unemployment, foreclosures, bankruptcies: all were up in this year like no other.

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.

If you are moving into retirement, you face one of life's biggest transitions. Many people don't 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 advisor.

The "normal retirement age" for receiving Social Security benefits is changing—moving up—over the next several years. 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 over a specified amount of income.

You must make a decision on when to start your benefits. All future benefits will depend on that decision. Make a decision, too, about whether to continue working. If you continue to work, you may want to delay your "official" retirement because you can increase your eventual benefits by working longer.

You should also consider consulting a professional if you completed real estate transactions in 2008 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.

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 circumstances.) You *must* begin minimum distributions at age 70½ . Withdrawing retirement money in the most tax-efficient manner can make a difference of thousands of dollars for your retirement; it 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. You don't want to pay a tax preparer to sort through your receipts.

Once you've filed your taxes, you're ready for your new start in 2009. Aim high. Dream big. And move away from the pessimism of 2008.

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.