

News Release

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Planning ahead to get more of your money back at tax time

It's time to start planning for everyone's favorite chore: filing your tax return. The following information was provided by Michael Gutter, University of Wisconsin-Madison/Extension family financial management specialist.

First, make sure you keep track of all of your records from 2005. Go through your drawers and cabinets and gather the records in one place. As you receive new statements, put them in a folder or envelope and keep them in a safe place until you sit down to do your taxes. Keep W-2 statements from your employer, 1099 statements that provide information on other sources of income, and statements regarding medical expenses, mortgages, child care, as well as other expenses that may help you reduce your taxes.

Visit the Wisconsin Department of Revenue web site at <http://www.dor.state.wi.us/> or the IRS web site at www.irs.gov for details on possible deductions. There are three main types of deductions. However, you can only use two of the three at any given time.

An **above-the-line** deduction such as a qualified contribution to a Traditional IRA is subtracted on the first page of the 1040 tax form. Other deductions include contributions to health savings accounts, student loan interest paid, and tuition and fees related to qualified education institutions. You can use the deductions if you had these expenses during 2005 and meet the income limits. You can only use one of the remaining two types of deductions, so you should use the one that is greater because a larger deduction reduces your taxable income more, which subsequently reduces your taxes.

Itemized deductions are specific expenses you may have had during 2005 that you are allowed to subtract from your income. These are found on Schedule A, which is a worksheet for determining itemized deductions. Examples are mortgage interest, property taxes and state income taxes withheld. However, only use itemized deductions when they are greater than your standard deduction.

The value of the **standard deduction** will be based on your filing status and age. Only use this if it is more than your possible itemized deductions.

A credit is different from a deduction because it is subtracted from the tax itself once it has been calculated. This means that a credit reduces your tax liability dollar for dollar while a deduction reduces your tax liability at the rate at which you pay your taxes. Some common credits include: child care tax credit, earned income tax credit, child credit, retirement savings contributions credit, credit for the elderly or the disabled, foreign tax credit and education credits.

There are two main tax credits for those enrolled in school or for those paying for a dependent to attend school. The Hope Credit is to be used during the first two years of post high school education and the Lifetime Learning Credit is for remaining years of post high school education.

If you're able to set a little money aside and want to reduce your taxes, there are two options. First, pay yourself. If you qualify, you can contribute to a Traditional IRA. You might be able to deduct your contribution and the money would grow tax deferred until retirement. If you cannot take the deduction for your contribution, you may still be able to contribute to a Roth IRA. While this will not reduce your tax bill today, the money in a Roth IRA grows tax free if you leave it in the account until retirement.

Second, be generous! You can give money to a qualifying charitable organization. If you already itemize, this would increase your itemized deductions.

You can fix past tax mistakes. Did you know that if you forgot to sign up for a deduction or credit last year it is not too late? In fact, you can generally file an amended return up to two years after the original return was processed. This is especially important if you were eligible for specific tax credits such as the Earned Income Tax Credit. You must have copies of past returns in order to complete these new forms.

You can also avoid high cost advances on your refund. This money is often better spent on filing electronically and having your refund deposited directly into your checking account. While this will not give you money the same day, it may only take a few weeks.

In a month, the UW-Extension Family Living Office will have information on applying for the Earned Income Tax Credit. Watch for future articles on this great program or call our office for income guidelines and other facts. Our office website will also be updated with the new information once it is made available to us. The site address is <http://www.uwex.edu/ces/cty/manitowoc/>

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