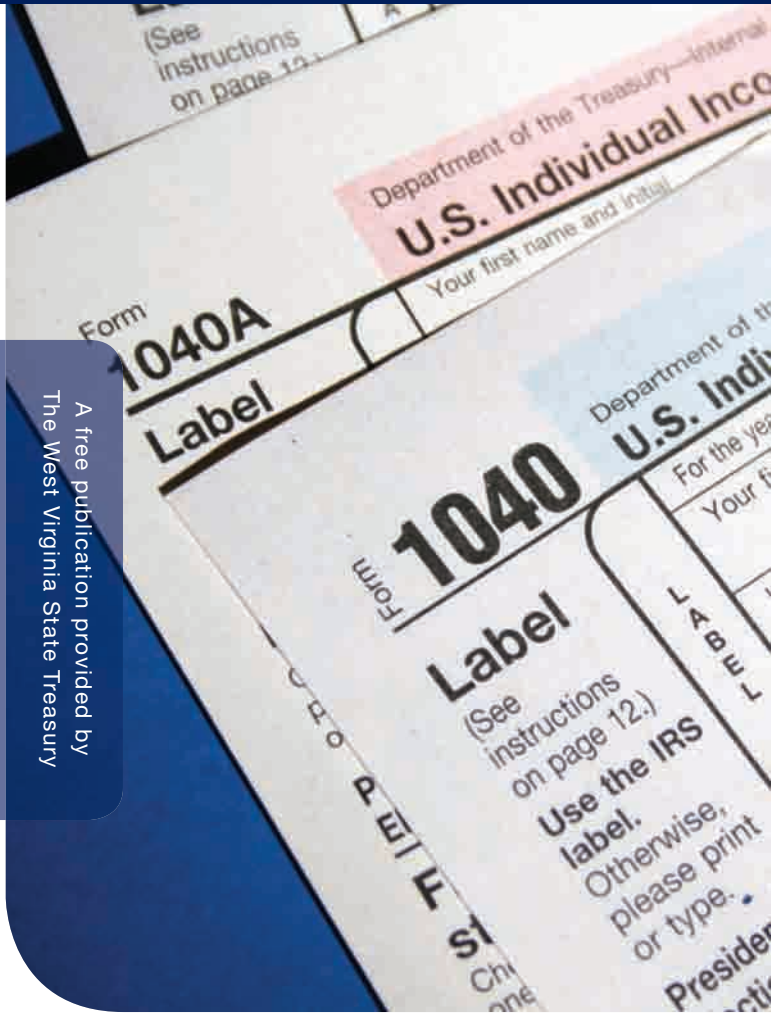


TAXES



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TAXES: SAVE MONEY, SOLVE PROBLEMS



Taxes take a big bite out of most American's budgets. In fact, they are the largest single expense for many of us. To help Americans understand how much we pay toward taxes, the Tax Foundation announces a "Tax Freedom Day[®]" each year. This is the date by which American's average earnings equal their annual federal, state and local tax bills. In 2008, it was celebrated on April 23rd. That means for the first three months of the year, the average American was working just for Uncle Sam. According to the Tax Foundation's research, Americans will work more days to pay taxes than they did to pay for food and shelter combined.

In addition, many people probably pay more taxes than they need to. A study by the Government Accounting Office found that missed deductions and credits resulted in more than two million Americans overpaying their taxes by approximately \$945 million in 2002, an average overpayment of more than \$400 per taxpayer.

FIVE FREQUENT TAX TOPICS



- Saving Money on Taxes
- Lending Money to Uncle Sam Through Refunds
- Rapid Refunds
- Taxes and Settled Debts
- When You Can't Pay the IRS

SAVING MONEY

Getting organized and keeping good records are the two keys to making tax time less painful and expensive. If you haven't already done so, start a file and notebook where you can keep track of your income and expenses. If you only receive income through one job and your employer withholds taxes, this will be easier. Still, it is a good idea to keep copies of your pay-stubs in case of any problems later on.

Always write down tax deductible expenses immediately, the same day that you incur them. Otherwise, you are likely to quickly forget about them. Keep records and receipts of any items you may be able to deduct. Scott Estill, former tax attorney and author of *Tax Secrets of Millionaires*, recommends you include the five W's in your records:

- Who?
- What?
- When?
- Where?
- Why?

Answering these questions will usually give you the information you need to explain any items that may be questioned by the IRS.

Many people fail to take legitimate deductions because they are afraid it will result in their being audited. In fact, your best defense is to keep good records, check your returns carefully, and make sure that you get good advice about legitimate deductions. Overpaying your taxes won't protect you against an audit.

Commonly Overlooked Deductions:

- **Charity** - You may be able to deduct the value of items that you give to charity, cash donations, as well as mileage for time spent driving for volunteer work with a qualified charity. If you donate goods to a charity, ask for a receipt. Expensive or large items should be independently appraised to establish their value.
- **Moving Expenses** - You may be able to deduct moving expenses if you moved at least 50 miles from your old home, either for your current job or for a new one.
- **Job Expenses** - The cost of education to maintain or improve skills in your current profession may be deductible. Job-related expenses such as union dues, uniforms, professional journals, dues paid to professional associations, a cell phone used for work, and work tools may all be deductible—though some will only be deductible to the extent that they exceed 2% of your adjusted gross income

- **Job Hunting Expenses** - You may be able to deduct the expenses associated with looking for a job. Résumé preparation and photocopying, postage, employment agency fees, long distance telephone calls, and even mileage spent driving to job interviews may be deductible.
- **Interest** - You generally can't deduct credit card interest except on a business credit card; you usually can deduct interest on a mortgage or home equity loan. Student loan interest is also often deductible. If you buy a home or refinance it, part or all of your points may be deductible as well.
- **Medical Expenses** - You can generally only deduct medical expenses that exceed 7.5% of your adjusted gross income. But if you had significant medical expenses, you may reach that threshold faster than you think. Don't forget to include costs such as mileage spent going to doctor appointments, therapy, or to fill prescriptions, treatments ordered by your doctor such as massages, those for weight loss, dentures, crutches, canes, hearing aids, eyeglasses or contact lenses, fees paid to a nursing home for medical care, and health insurance premiums paid out of taxed income (different from the deduction available to those who are self-employed). You may also be able to deduct health insurance premiums if you are self employed.
- **Child Care Expenses** - If you paid someone to care for a child or a dependent so that you could work, you may be able to reduce your federal income tax. According to the IRS, the credit for child and dependent care expenses is available for people who, in order to work or to look for work, have to pay for child care services for dependents under age 13. The credit is also available if you paid for care of a spouse or dependent of any age that is physically or mentally incapable of self-care. For more details visit www.IRS.gov. You may be able to take a tax credit of up to \$10,160 for qualifying expenses paid to adopt an eligible child; this includes children with special needs. The credit and exclusion for qualifying adoption expenses are each subject to a dollar limit and an income limit.

- **Other Expenses** - You may not have thought about deducting some of these expenses, but they are worth checking out. They include gambling expenses that don't exceed the winnings, tax preparation fees, safety deposit fees if used for business or investment purposes, legal fees paid to collect taxable alimony, worthless stocks or securities, alimony you paid, casualty or theft losses not reimbursed by insurance.

Important: Because tax laws change frequently, check with a tax advisor before attempting to take any of these deductions. Also remember that some expenses will be deductible only if they exceed a certain percentage of your income.

DON'T LEND TO UNCLE SAM

Getting a fat tax refund each year may be better than owing the IRS, but it may not be the smartest way to save. After all, it represents an interest-free loan to the IRS that you will have to wait to get back. According to the IRS:

- Federal tax refunds to individuals totaled more than \$202 billion last year.
- Nearly 100 million taxpayers, three out of four returns, got refunds.
- The average refund was slightly more than \$2,000.

Use the Withholding Calculator on the IRS website, www.irs.gov, or talk with your tax professional about adjusting what you are withholding so you will get more money in your paycheck now. Then put that money to work for yourself by paying down high-interest rate debt or creating an emergency saving fund. It's your money!

AVOID RAPID REFUNDS

Rapid refunds are usually touted as a way to get your money fast, but they can be very expensive. According to Consumer Federation of America, these loans drained over a billion dollars in fees from consumers' wallets last year. The effective interest rate charged on these loans, in the form of fees, can be between 70% and 700%! Your best bet is to adjust your withholding so you will get your money with each paycheck rather than paying for a quick refund.

FORGIVEN DEBT

If you settled a debt with a creditor or collection agency for less than the amount owed, you may think the problem is solved. This is not necessarily true. In many cases, the creditor or collector will be required to send you an IRS Form, 1099-C, reporting “Discharge of Indebtedness Income.” In fact, it is required that anytime debts exceeding \$600 are forgiven, even if that amount included interest or fees, a 1099-C must be filed. If the creditor reports this income you will be expected to pay taxes on it. That is true even if you didn’t receive a copy of the form because you moved.

So what can you do? You may be able to get this tax liability wiped out if you are considered “insolvent” by the IRS, meaning you owe more than you own. For more information, consult a tax professional or read “Instructions for Form 1099-C” at www.irs.gov.

PROBLEMS PAYING TAXES

Owing the IRS money is no fun; the IRS can do things that other creditors cannot do to collect. Without going to court first, it can seize your property or place a lien on it, garnish your wages, or take money from your bank account. If you owe the IRS money, it is a good idea to try to resolve the problem as quickly as you can. Here are several more options:

Request a repayment plan: If you aren’t currently in a repayment plan, and you have filed all of your Federal tax returns, you can propose a repayment plan to the IRS. In fact, it is a fairly simple process. All you have to do is file Form 9645 and propose a reasonable payment plan. You will then pay a \$43 filing fee and interest, which is at a reasonable rate.

Put it on plastic: We don’t recommend charging your taxes. There are some situations where charging makes sense, especially if it helps you avoid further penalties or IRS problems. Go to www.officialpayments.com for more information on how to charge your taxes. You will pay a fee of 2.49% as well as the interest charged by your credit card issuer.

Settle the debt: You may be able to get some of your tax debt wiped out through an “offer in compromise.” This is an agreement between a taxpayer and the IRS that resolves the taxpayer’s tax debt. The IRS has the authority to settle or “compromise” federal tax liabilities by accepting less than full payment under certain circumstances. While an offer in compromise is officially considered an option of last resort by the IRS, many people who couldn’t otherwise get caught up have used this to successfully put their overdue tax bills behind them.

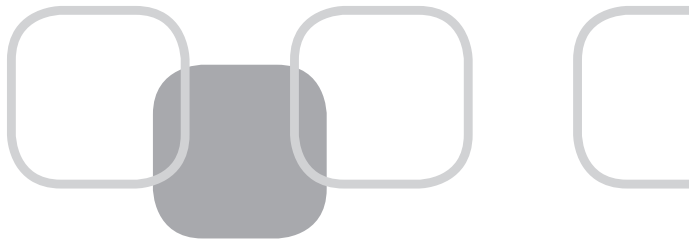
According to the IRS, it may be willing to accept an offer in compromise if there is:

- Doubt that the assessed tax is correct
- Doubt that you could ever pay the full amount of the tax owed
- Extenuating circumstances such as the collection of the tax would create an economic hardship or would be unfair and inequitable

You don’t need a tax professional to prepare an Offer in Compromise, but it may be helpful depending on your circumstances.

File bankruptcy: Bankruptcy generally does not wipe out tax debts and for most people it is not their first choice. However, if you have older tax debt and you simply cannot pay it, you may need to consider this as an option. Consult a bankruptcy attorney for advice.

Get help with other bills: Creating a workable budget and a repayment plan for your other debts may free up enough money so that you can work out a payment plan to get caught up on your taxes.



ADDITIONAL RESOURCES



The Internal Revenue Service

www.IRS.gov

Tax Secrets of Millionaires by Scott Estill, former tax attorney

www.bizhelpcentral.com

Stand Up to the IRS by attorney Scott W. Daily

www.nolo.com



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