

Summer 2005 Newsletter for Your Clients

Summer is here and April 15 may seem like a distant memory. If it is for you, it's probably even more so for your clients. This 2005 Summer client newsletter provides reasons why your clients should visit you after April 15.

Feel free to duplicate the client newsletter and mail to your clients. We've provided space for your name and telephone number, or you may prefer to photocopy your business card. Alternatively, you may use the newsletter as source material for your own client newsletter.

Sincerely,

David Mellem, EA, *EA Journal* Editor

Mary R. Mellem, EA, Client Newsletter Editor

Why Would You Contact a Tax Professional after April 15?

Have you visited your doctor for your annual physical? Have you seen your dentist one or two times in the past year? Your financial health is no different than your physical health. To stay healthy you must take care of yourself, eat right, exercise, and above all, be aware of any changes that happen to your body.

Your financial health needs to be monitored in the same way. Even though you see your tax professional once a year, you may need to have another meeting or checkup during the off season. Your tax professional can keep you on the right track with your financial health if he or she knows what is going on when or before it happens. Many times there is little that can be done come tax time to fix an unpleasant tax situation. However, if the situation was reviewed at or before the time it happens, corrective measures may be able to be taken to insure that the end of the year outcome you want is achieved.

Here are some situations that may happen in your life that warrant an off-season visit or communication with your tax professional.

Events such as **marriage, divorce, or remarriage** cause a change in marital status during the tax year. The exemptions claimed on your W-4 may need to be adjusted to produce the desired effect or to prevent an unexpected bill. At some reasonable point prior to the last few paychecks, you should gather your year-to-date information including the year-to-date withholding and visit your tax professional. Estimating the tax due will allow you to make any necessary changes in withholding or submit an estimated tax payment so you can avoid or reduce any penalties or unwanted balance due.

If you are going through a **divorce**, discussing with your tax professional the ramifications of dependency, alimony, family maintenance, child-

care, marital status, and division of property before signing the document is extremely helpful. Divorce decrees sometimes contain wording that has a different tax implication than what you intend. A review with your tax professional can prevent misinterpretations.

When **family size** increases by the birth or adoption of a child or shrinks as children leave home, good and bad changes can happen on the tax return. Knowing and preparing for those changes are important. Adoption and education credits are available under certain conditions. Making sure those conditions are met can have pleasant results. In the year a child who has been claimed by the parent graduates, the parent's tax may be increased because of the loss of the child's exemption. If the child was in college, it may also mean the loss of the education credits or deductions.

Your tax professional wants to know when you move. The real reason is that the IRS and your state department of revenue should be informed of the change. A **change of address** form should be filed with the respective departments. In the event your return is audited or there is some other problem, the taxing authorities will send the information to your last known address. If this information is time sensitive, you may miss a costly deadline because you didn't get the letter.

A **career change** could affect your tax situation. If you increase your income, have pension opportuni-

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ties that you are not sure about or excludable opportunities such as cafeteria plans and dependent care benefits, your tax professional can help you evaluate your options and correctly fill out your W-4. A career change can increase income, shifting you into a higher tax bracket or change the kinds of work-related deductions available. Keeping good records is essential, but knowing exactly what to keep is equally as important.

Property transactions may warrant the advice of your tax professional. If you're selling a piece of property, estimated tax payments may need to be made to avoid an underpayment penalty at the end of the year. Just how much to send in and where and when to send it is information that can help you. If you're contemplating an exchange of property rather than a sale, knowing whether the property qualifies for a tax-free exchange and the timing involved to complete the exchange can prevent a surprise tax bill.

Did your company present you with an **early retirement** proposal? Or are you planning retirement? This event definitely changes your life. Handling pension benefits incorrectly can create the dreaded 10% penalty. Even if retirement is not the issue, a change in employment or pension coverage by the employer can put pension money in your hand unexpectedly. You should discuss your options before you act. If you are retired and you are taking additional moneys from your pension, this may affect your tax situation. Check with your tax profes-

sional to make sure you are not triggering an early withdrawal penalty or causing social security to be taxable when you were not expecting that effect.

If you find yourself in financial trouble, **bankruptcy** may be the option you choose. If so, let your tax professional know about it before your tax appointment. There are filing options which may be available to you to take advantage of certain tax attributes. Time is of the essence if you are in a bankruptcy situation.

While **gifting property** or receiving a gift may not seem like a change with tax ramifications, it can be. If you gift property, you may need to file a gift tax return. If you are contemplating giving property to achieve a certain outcome such as protecting the property for heirs in the event of illness, it is important to review your options. If you are the recipient of the gift, you need to have certain information about the gift such as basis. It is easier to get that information closer to the time of the gift than trying to find it years later.

When a change in your life occurs because of the **death** of a loved one, your tax professional can help. Depending on your relationship, you may be responsible for the filing of the decedent's final return, an estate valuation return, and/or an estate or trust return. The deadlines for filing these returns vary. Discussing this with your professional can avoid late-filing issues as well as helping to identify the needed information to complete these returns and to

review the affect of the loss on your personal situation.

If you're planning to **start a business**, have a plan. Review the necessary steps with your tax professional. This may involve hiring employees, choosing an entity, purchasing assets, getting the appropriate identification numbers, etc. All of this affects your current tax situation. Even after you're in business, discussing how things are going during the year makes good business sense.

Last, but certainly not least, when you receive a **letter from the IRS or your local taxing body**, read the letter and call your tax professional. Do not ignore it hoping it will go away. It won't. Many things can be easily cleared up if acted on in a timely manner. Putting it off only creates more letters and possibly bigger penalties.

As you can see, it is important to confer with your tax professional when these situations occur. Most tax professionals specialize in tax preparation and planning. They're not doctors. So having a heart attack in their office due to unexpected tax news can be hazardous to your future as well as your tax professional's future. Plan ahead and keep your tax professional informed.

The key word in communication with your tax professional is change. If a change occurs in your life, it is important to consider whether that change may in any way change your tax situation. If so, call your tax professional.



Your Business Card Here