Five Ways to Prepare for Tax Filings

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Now that the page has turned on another calendar year, the tax return season is fast approaching. Although you may benefit from having your family's 2009 returns prepared by an experienced professional, you still must provide the records needed to complete these filings. Logical organization of your records is a critical aspect of this process.

Here are five steps that can simplify things come tax return time. Taking this approach may also help a professional tax return preparer pinpoint various tax-saving opportunities on your personal returns.

1. Keep records of expenses that may be claimed as itemized deductions. Use a spreadsheet or other ledger for this purpose. The list of expenses (not all inclusive) includes real estate and income taxes, charitable donations, medical and dental expenses, interest expenses, casualty and theft losses, and miscellaneous expenses. Keep in mind, if you use a vehicle for business driving, it is important to maintain records of your trips in a contemporaneous diary.

2. Separate "income" items from "expense" items. This can simplify matters significantly when you present your files to a tax return preparer. When possible, develop subcategories for certain expenses. For example, travel and entertainment (T&E) expenses should generally be handled separately due to their extensive substantiation requirements. A business traveler must document the date, amount, business purpose and other details about the expense (depending on the nature of the expenditure). Also, be sure to keep your receipts and documentation as to the business purpose for T&E expenses.

3. Coordinate financial documents. For instance, you might use a coding system for identifying check numbers and other transactions that appear on statements. Another possibility is to use the memo lines or other spaces provided on checks or charge slips. Doing this provides a backup in the event you cannot locate income and expense files or ledgers.

4. Observe any special tax law requirements. For instance, the IRS recently imposed strict substantiation requirements for cash and cash-equivalent donations to charity. In general, filers are required to obtain a written confirmation from the charity or to support deductions through bank statements or receipts. Similarly, you must have access to information about securities to establish your basis for claiming capital gains and losses.

5. Store tax return records in a safe place. The best recordkeeping system in the world will not do you any good if you cannot locate the records when they are needed. Consider keeping valuable documents in a fire-resistant strongbox. Also, you might deposit check registers, credit card statements and the like in a safe deposit box until you are ready to have your return prepared.

No matter what kind of recordkeeping system you use, try to stay flexible. It may be necessary to adapt to changes in your personal circumstances, such as buying a home or getting a divorce.

How long should you keep your records? The IRS can generally go back up to three years to make adjustments, but this period is extended to six years for a return omitting more than 25% of your income. No limit exists if fraud is involved. Some experts recommend holding on to tax records for at least ten years.

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