Secrets to Saving Money On Your Taxes

Updated for 2016

KRS CPAs, LLC

We Follow Through. You Succeed.

Contents

Introduction

We get many questions from our clients about the best ways to save on taxes. So we've put together this guide to share the four things you need to know to help you save on tax payments or increase your refund.

We tell our clients that the earlier in the year they learn about possible tax deductions, the easier it is to take advantage of them. These 4 secrets can help you make wise choices during the year and at tax time:

- **Secret #1:** Know what you can deduct
- **Secret #2:** Recognize audit triggers
- **Secret #3**: Work with the right tax professional
- **Secret #4**: Avoid tax scammers.

On the following pages, you will learn more about these secrets, and how you can put them to work for you.

Note that this advice is meant to be general, and may or may not apply to your specific situation. Always consult your tax or accounting professional for formal advice and opinion. He or she can guide you to use tax deductions efficiently and legally.

Secret #1

Know What You Can Deduct

Tax deductions can help you lower your tax bill or increase your tax refund. This section includes some of the deduction categories that we get asked about the most. We've set them up in the handy chart, below, so you can see right away what you can and cannot deduct in each case.

Can I Deduct…	NOT Deductible	Deductible
Commuting Costs	Cost of getting to and from your workplace is NOT deductible.	Cost of commuting expense if you work at more than 2 places in 1 day. Deduct the cost of getting from 1 workplace to the other. Deduct other unreimbursed work-related travel (i.e., to visit clients & out-of-office meetings). Expenses for travel from your home and a temporary work site outside the metropolitan area where you live and normally work. If personal vehicle is used for business travel, the IRS standard mileage rate, plus tolls and parking, is deductible. For 2016, it is 54 cents per mile.
Telephone	IRS says the first hard-wired phone line is a non-deductible personal expense.	Deduct as business expense the cost of any business related long-distance charges. Installation of a 2nd line for business. Cell phone: Can deduct business use.
Pets	Yes, they are family members, but you cannot claim them as a dependent and their medical costs are NOT deductible.	Costs of buying, training & managing a guide or other service dog. Guard dog – costs for guard time only (certified guard dog). Depreciate the cost of a guard dog over its expected lifespan.

Can I Deduct…	NOT Deductible	Deductible
Summer Camp	Sleep-away camps are not deductible.	Day camp for the hours parents are working qualify for dependent care credit.
Plastic Surgery	No deduction for cosmetic surgery if it's merely intended to improve the patient's appearance. No deduction if it doesn't significantly improve the function of the body or prevent or treat illness or disease Also, no deduction for gym memberships & weight loss programs either.	If it's medically prescribed: necessary to improve a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma or a disfiguring disease. Medical expenses must be in excess of 10% of AGI to benefit from this deduction.
Home Owners' Insurance	Hazard policies are not deductible (unless you have a home office).	Yes, but only if you are renting a portion of your home. Private mortgage insurance (PMI) may be deductible if you meet the income limits and your loan started in 2007 or later. There are AGI income limitations.
Business Clothing	If the clothing can be worn outside of your job it is NOT deductible.	Uniforms Dry cleaning for attire you can't wear anywhere else. Costumes and theatrical clothing/accessories.
Legal Fees Paid to Secure Alimony	Other legal and court fees are not deductible.	Portion of lawyer's fee pertaining to setting the amount of alimony and providing tax advice.

Can I Deduct…	NOT Deductible	Deductible
Volunteer Time (Charitable)	No deduction for the value of your time or wages.	If personal vehicle is used for charitable work, the IRS standard mileage rate, plus tolls and parking, is deductible. For 2016, it is 14 cents per mile for charity endeavors. Out-of-pocket costs incurred while doing work for a charity (i.e., stamps/office supplies used for mailings, food supplies for fundraising events, snacks for volunteers). Travel expenses - taxi, lodging & cost of meals.
State Sales Tax	Cannot claim state INCOME tax and state SALES tax on your return. Must choose one.	IRS has a sales tax deduction calculator that determines how much residents can deduct, based on income and state/local tax rates. Sales tax on big ticket items (i.e., vehicle, boat, airplane) may be an additional deduction.
Student Loan Interest	Parents CANNOT claim school loan interest if student is legally bound to repay it.	If not a dependent, student can deduct up to $2,500 of school-loan interest, even if parents gave them money for the loan payments. Itemization on tax return is not required.
Job Hunting	No deduction for the value of your time spent seeking employment, or lost wages.	Cost of printing resumes and business cards, envelopes, stamps, advertising. Employment agency and outplacement services fees, if you are the one paying them. Transportation expenses (train, cab, plane fare). If driving car, the IRS standard mileage rate, plus tolls and parking, is deductible. For 2016, it is 54 cents per mile for business-related expenses. Food and lodging costs if overnight stay required.

Can I Deduct…	NOT Deductible	Deductible
American Opportunity Credit	If student takes longer than four years to complete college, not deductible for additional years over four.	Good for four years of college. Maximum annual credit is $2,500 per student. Based on 100% of first $2,000 spent on qualified education expenses and 25% of next $2,000. Credit is phased out at income levels over AGI of $80,000 (individual) and $160,000 (joint return).
Lifetime Learning Credit	You cannot claim this credit if you are listed as a dependent on another person's tax return.	Offsets the cost of higher education for adults not claimed as dependents on parents' tax return. Credit is worth $2,000 per year, based on 20% of post-high school courses up to $10,000 in cost. No limit to number of years it can be claimed. Applies to community and four-year colleges, vocational and job-training instruction. Credit phases out over $65,000 for individual and $130,000 for joint filers.

Secret #2
Recognize Audit Triggers

An IRS audit is a review and examination of your accounts and financial information to ensure information is being reported correctly, according to the tax laws, to verify the amount of tax reported is accurate.

The accuracy of the information you provide for your return is your responsibility, not your accountant's. So it's smart to know that these items may trigger an IRS audit:

- Excessively high income compared to previous years
- Unreported income
- Large charitable deductions
- Day-trading losses on Schedule C (investor versus trader)
- 100% business use of vehicle
- Home office deduction
- Inconsistency from year to year and between federal and state returns
- Schedule C - profit/loss from business
- Alimony that doesn't match what was reported to the IRS
- High error rates among preparers can trigger client audits

How You Are Selected for an Audit

When the IRS selects a return for audit, it does not always suggest that an error has been made. The IRS uses a variety of methods to select returns, including:

- Random selection and computer screening – sometimes returns are selected based solely on a statistical formula.
- Document matching - when payor records, such as Forms W-2 or Form 1099, do not match the information reported.
- Related examinations - returns may be selected for audit when they involve issues or transactions with other taxpayers, such as business partners or investors, whose returns were selected for audit.

Deducting these expenses may also trigger an audit:

- Child support
- Personal legal expenses
- Gambling losses (beyond winnings)
- Roth contributions

The IRS will never notify you by email, text message, or social media about an audit.

Should your return be selected for an audit, you will be notified either by mail or telephone. If the IRS calls you, they will still send a letter confirming the audit.

IF you receive an email purporting to be from the IRS, it is a SCAM. Forward it to phishing@irs.gov. Do not reply to it and do not open any attachments. Delete the original email.

If you are selected for an audit, contact your tax professional, who can assist you in the audit process. He or she can also be authorized to represent you in the audit.

Secret #3

Work with the Right Tax Professional

How do you know your tax preparer is doing a good job for you?

Every preparer *should* be preparing your return exactly the same way and they *should* each be working to get you the biggest refund.

Even so, you will want to choose your preparer wisely, because when your return is prepared by someone else, as the taxpayer you are still legally responsible for what is on it.

Here are ten tips to keep in mind when choosing your tax professional:

1. **Check the preparer's qualifications.** New regulations require all paid tax return preparers to have a Preparer's Tax Identification Number (PTIN). You should also ask if the preparer is affiliated with a professional organization (such as the American Institute of Certified Public Accountants, www.aicpa.org) and attends continuing education classes.

2. **Check the preparer's history**. Check to see if the preparer has a questionable history with the Better Business Bureau (www.bbb.org) and check for any disciplinary actions and licensure status through the state boards of accountancy for CPAs; the state bar association for attorneys; and the IRS Office of Enrollment for enrolled agents.

3. **Ask about their service fees.** Avoid preparers who base their fee on a percentage of your refund or those who claim they can obtain larger refunds than other preparers. Always make sure any refund due is sent to you or deposited into an account in your name. Under no circumstances should all or part of your refund be directly deposited into a preparer's bank account.

5. **Ask if they offer electronic filing.** Any paid preparer who prepares and files more than 10 returns for clients must file the returns electronically, unless the client opts to file a paper return. More than 1 billion individual tax returns have been safely and securely processed since the debut of electronic filing in 1990. Make sure your preparer offers IRS e-file.

6. **Make sure the tax preparer is accessible.** Make sure you will be able to contact the tax preparer after the return has been filed, even after the April due date, in case questions arise.

7. **Provide all records and receipts needed to prepare your return.** Reputable preparers will request to see your records and receipts and will ask you multiple questions to determine your total income and your qualifications for expenses, deductions and other items. Do not use a preparer who is willing to electronically file your return before you receive your Form W-2 using your last pay stub. This is against IRS e-file rules.

8. **Never sign a blank return.** Avoid tax preparers that ask you to sign a blank tax form.

9. **Review the entire return before signing it.** Before you sign your tax return, review it and ask questions. Make sure you understand everything and are comfortable with the accuracy of the return before you sign it.

10. **Make sure the preparer signs the form and includes their PTIN.** A paid preparer must sign the return and include their PTIN as required by law. Although the preparer signs the return, you are responsible for the accuracy of every item on your return. The preparer must also give you a copy of the return.

11. **Report abusive tax preparers to the IRS.** You can report abusive tax preparers and suspected tax fraud to the IRS on Form 14157, Complaint: Tax Return Preparer. Download Form 14157 from www.irs.gov or order by mail at 800-TAX-FORM (800-829-3676).

Secret #4

Avoid Tax Scammers

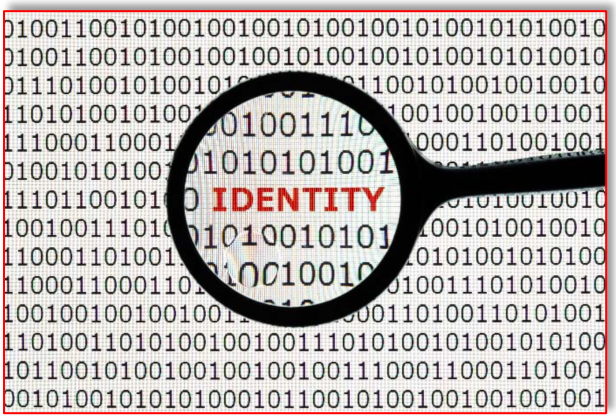
The issue of identity theft and filing of fraudulent returns is becoming an increasing problem for the IRS. They estimate that tax fraud will hit $21 billion in 2016, up from $6.5 million only two years ago.

It is easy enough for scammers to electronically file false returns and collect the corresponding refunds using only a name, date of birth and Social Security number. The targeted victims then learn of this fake filing only when they try to e-file themselves.

To better combat this crime, the IRS and numerous states will require 20 additional points of validation data for all e-returns filed in 2016 for the 2015 tax-year.

Be warned that this additional level of security may slow the processing of returns and delay the issuing of refunds.

If you become a victim of identity theft, it is critical to file a report with the Federal Trade Commission (FTC) and your local police department. The FTC website IdentityTheft.gov is a one-stop resource to help you properly report this crime, and recover from it.



How can YOU avoid this happening?

1. **Do NOT share your Social Security number.** You may be required to fill out your SSN on bank and financial forms. But do NOT complete it on forms at hospitals, diagnostic centers and doctor's offices. Unless it is absolutely required, leave that information blank on any forms you fill out.

2. **Ignore fake IRS calls and emails.** The IRS will never call you without first sending at least one, generally more, notices. They will never email you. Do not respond to these false contacts.

3. **Do NOT respond to unsolicited inquiries.** Never give out your name, birth date, SSN, or bank account data via phone, mail or online to people or companies whom you did not contact.

More Tips
Common Business-Related Expenses

We also get asked about several business-related expense categories, such as travel, home office, and business meals. Here's what you need to know to claim these expenses:

Travel Expense Deductions

- You can deduct travel expenses, and 50% of related meals and entertainment, if the travel is reasonably related to your business.
- What if your spouse goes along on the trip? As long as he or she is a partner or employee of your business, and attends conventions or meetings on the trip, then his or her travel and 50% of his or her meals are also deductible.
- The cost of your room is deductible, even if your family joins you.
- Tickets to shows and attractions are deductible, subject to a 50% limit, if you take a business associate or client.
- If you're self-employed and traveling on business, those annoying baggage fees for checked luggage are deductible.

Business Meals Deductions

- Meals for clients are deductible, but only for 50% of the meal cost.
- Meals while on business trips are 50% deductible.
- Meals for your employees are deductible if they are provided onsite, and to more than half the employees, and are offered because they must work late.
- Company parties or picnics are 100% deductible. Office snacks are, too.

Bonus Tip: Have two meal accounts on your books – one for 100% deductible meals and the second for 50% deductible meals. This keeps meal expenses more easily organized.

More Tips

Common Business-Related Expenses

Home Office Deductions

- The area of your home used solely for business is what is subject to deduction.
- Eligibility rules now include use of space for administrative and management activities, even if clients are not met there.
- You can also take a proportional share of your mortgage, property taxes, utilities, insurance, alarm and depreciation expenses.
- The IRS has a simplified deduction of $5 per square foot, up to a max. of 300 square feet.

Helpful Tips for Businesses, Large and Small

- Self-employed taxpayers should diligently save a paper or digital copy of all receipts related to legitimate business expenses. Having a separate company credit card is an excellent method to keep accurate records of expenses.
- Remember to contribute the maximum to your retirement account, to help reduce taxes for 2015. For traditional and Roth IRAs, the deadline for contributions is April 18, 2016. If you have a Keogh or SEP and receive a filing extension to October 17, 2016, you can make your contribution up until that date.
- Hire your children and reduce the income from your small business. Their pay can be placed directly into a Roth IRA tax free. If they earn $6,200 or less, their tax rate will be 0%, so their full gross pay goes in the Roth. This money can be pulled out for college or a first home, without penalty, if done correctly.
- Consider starting a Health Savings Account (HSA). Contributions to an HSA are tax deductible and there are no income limits for making a contribution. For those enrolled in a high-deductible health plan, contributions up to $3,350 for single and $6,650 for families are eligible for the 2015 tax year.

About Us

We Follow Through. You Succeed.

Paramus, New Jersey-based KRS CPAs, LLC. is known for being responsive and following through for clients. The firm's goal is to make it as easy as possible for clients to get the advice and counsel they need so they can focus on living their lives and running their businesses successfully.

Founding partners Brad Kreinces, Maria Rollins, and Jerry Shanker started KRS in 2005, with an entrepreneurial spirit, high standards, and solution-oriented expertise. Today, along with partner Simon Filip, they believe that clients benefit the most by having a trusting working relationship with a CPA who provides an independent view to enable better decision making.

Get a complimentary initial consultation.

If you're ready to work with a firm that takes the hassle out of taxes, give us a call at (201) 655- 7411.

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by *NJBIZ* as one of the Best Places to Work in New Jersey for six consecutive years, has been named one of the Best Firms to Work For by *Accounting Today,* and was a winner in the Best Practices in Leadership competition by COMMERCE magazine.

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Disclaimer: This guide is not intended as a thorough, in-depth analysis of your specific tax issues, nor is it a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. Consult your accountant or tax professional for advice for your specific situation.

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