

CONOR BRADLEY | MEDFORD, OR

# Avoid a Taxing Situation

## SEVEN TIPS TO EASE TAX STRESS

When it comes to taxes, it often seems that paying through the nose is a necessary evil and customary right of passage for young adults. However, there are clever tricks of the trade to help you avoid getting punked by "The Man." Here are a few tips to help you understand the ABC's of taxes, and perhaps hang on to more of your C-notes.

### [1] TIME TO PAY UP

If you work it's time to start filing taxes with the federal government and the state in which you reside. There are a few ifs, ands, and buts regarding your status, so you need to know your options.

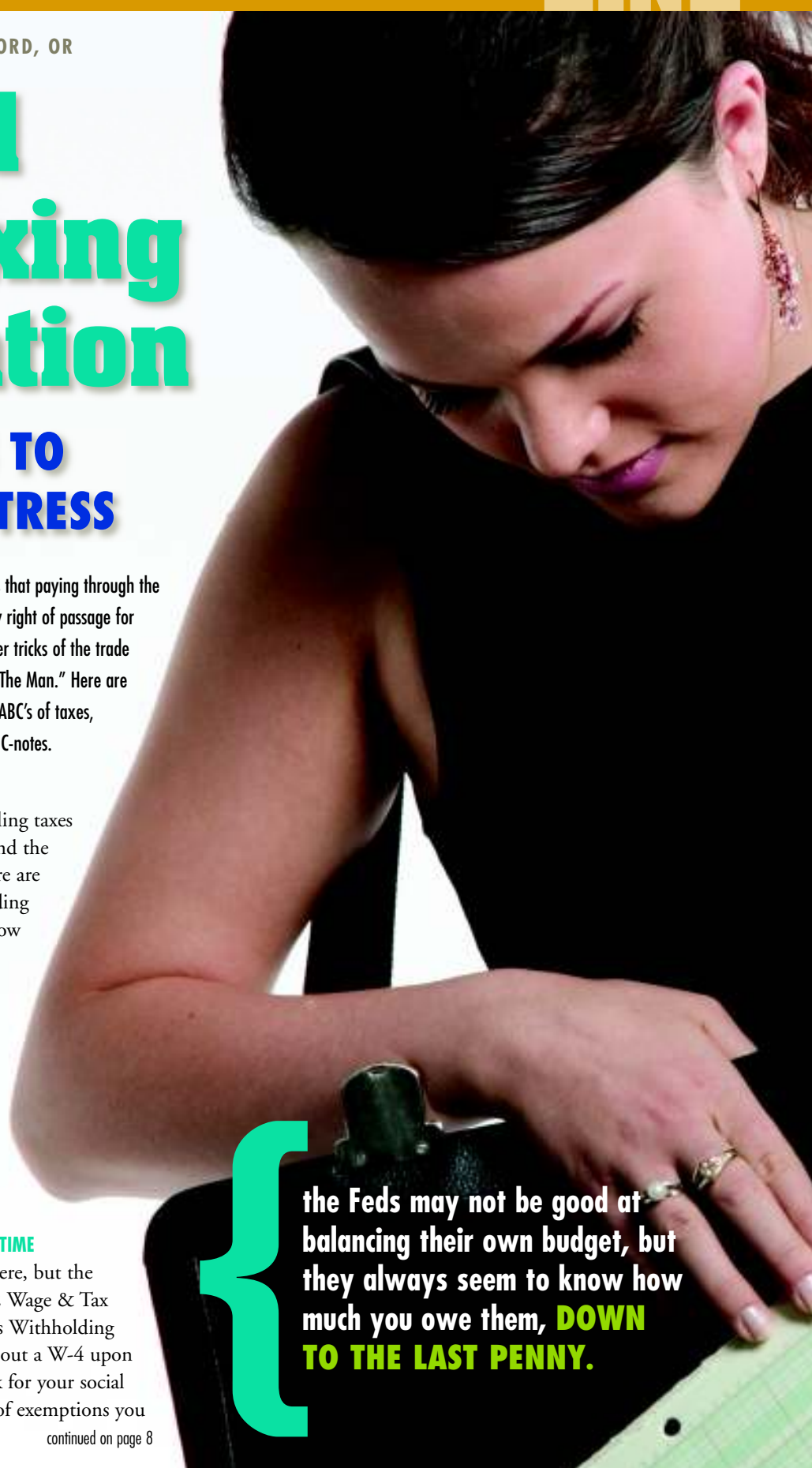
In general, once you have the following gross income, the law requires you to file a federal tax return with the IRS:

Single – \$7,950  
Head of Household – \$10,250  
Married Filing Jointly – \$15,900  
Married Filing Separately – \$3,100

### [2] SO MANY FORMS, SO LITTLE TIME

There are tons of forms out there, but the first two you need are the W-2 Wage & Tax Statement and W-4 Employees Withholding Allowance Certificate. You fill out a W-4 upon being hired. This form will ask for your social security number and number of exemptions you

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the Feds may not be good at balancing their own budget, but they always seem to know how much you owe them, **DOWN TO THE LAST PENNY.**

## taxing situation, cont.

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want to claim. You should receive a W-2 form from your employer no later than February 2nd, summarizing your annual income. W-2s are necessary to complete your taxes. If you do not receive a W-2, contact your employer before contacting the IRS.

### [3] AS LONG AS YOU'RE LIVING UNDER MY ROOF...

If you still come crawling home for mom's cooking and dad's spare change, and they are paying more than fifty percent of your expenses, your parents can claim you as a dependent on their taxes.

This lack of legitimate lodging isn't all bad. Based on annual income, a young person can either claim exempt or zero withholdings on their W-4. This means one of two things: taxes won't be owed at all or they will be fully refunded. Try filing this way for as long as possible because the real world can make a person real poor, real fast.

Get creative: if you let your parents claim you as a dependent, have them pay you the amount you'd have received if you'd filed independently. Chances are, they'll save more by claiming you as a dependent than you would get as an independent, and everyone wins.

### [4] DON'T BE LATE FOR AN IMPORTANT DATE: APRIL 15TH

If late on your taxes, you must sign a blood contract with the Insidious Reaper of Souls (IRS) and forfeit your first-born, also known as penalties and interest. The Federal government may not be good at balancing their own budget, but they always seem to know how much you owe them, down to the last penny. Pay on time and avoid getting thrown under the bus of federal animosity.

However, if lady luck is on your side, the government will offer an amnesty period by filing an extension (Form 4868) on time. This is basically the "get out of

## TAX EVASION PENALTIES

# Pay up or... Pay the price

**FAILURE-TO-FILE:** 5% of the tax not paid by the due date for each month or part of a month that the return is late. • **FAILURE-TO-PAY:** 1/2 of 1% of your unpaid taxes for each month or part of a month after the due date that the tax is not paid. • **FRIVOLOUS RETURN:** \$500 if you file a return with false or insufficient information.

> \$15 for each correction filed within 30 days after the due date. > \$30 for each correction filed after the 30-day period but by August 1st. > \$50 for each correction not filed by August 1st. • **FRAUD:** If your failure to file is due to fraud, the penalty is 15% for each month or part of a month that your return is late, up to 75%. • **FAILURE-TO-SUPPLY SOCIAL SECURITY NUMBER:** \$50 for each failure on your return and an additional \$50 if you don't provide your SSN to another person when it's required on their return, statement, or other document.

[Resource: [www.taxdeal.com](http://www.taxdeal.com)]

jail free" card in the real-life game of Monopoly. The penalties and interest won't be assessed if you pay the amount you owe.

### [5] DON'T FORGET ABOUT IT

If you don't file your taxes there will eventually be a world of hurt. The government will find you, rest assured, and the repercussions are bad, bad news. After a series of letters, the IRS will approximate the amount due based on your last return and will set a time period to come clean and cough up the dough. Finally, they will garnish your wages, which is a fancy term

meaning they are taking what you owe them in installments from your regular paycheck with penalties and fees factored into the mix. As you can imagine, this is an enormous inconvenience.

**STACKS OF TAX STATS**

- \$836** — AMOUNT OF THE AVERAGE REFUND
- 2.5 BILLION** — DOLLARS IN UNCLAIMED REFUNDS AWAITING NEARLY 2 MILLION PEOPLE WHO FAILED TO FILE A 2000 INCOME TAX RETURN.
- 130,728,000** — NUMBER OF INDIVIDUAL INCOME TAX RETURNS THE IRS RECEIVED FOR THE 2003 FISCAL YEAR.
- 73 MILLION** — DOLLARS IN REFUND CHECKS THAT GO UNDELIVERED.
- 70%** - FILERS WHO ARE DUE A REFUND.

Sources: [www.irs.gov](http://www.irs.gov) • [www.stretcher.com](http://www.stretcher.com)  
[www.irs.ustreas.gov](http://www.irs.ustreas.gov) • [www.taxesindepth.com](http://www.taxesindepth.com)



Ironically, the Feds sometimes resemble a fun-loving HBO family business. They will give you a way out before they break both your legs for non-payment. They will usually agree on a payment plan if you make a voluntary effort to rectify the debt. Avoiding this situation can save your checkbook, your ego and your reputation.

**[6] WATCH YOURSELF NOW**

Always take the high road. You can't hide money and come out ahead. A few extra bucks in your pocket today will not offset the headache that a federal audit will cause in the future. Report as accurately as possible.

**[7] C.Y.A.... COVER YOUR ASSETS**

Keep records and receipts of all financial transactions in one box or file folder. If a federal bean counter questions your return, you have proof explaining why the trip to Tahoe or lunch at Luigi's are business expenses.

Paying taxes is a necessary evil, like taking out the trash. It avoids living in a pile of trouble and keeps your governmental relations smelling sweet. Hopefully these tax tips can shed light on the path of integrity. You will be fortunate to never find yourself face to face with the grim reaper of the government, the federal accountant. Good luck and happy filing! **b**

**CREDITS AND DEDUCTIONS when school pays off**

**HOPE SCHOLARSHIP CREDIT:** credit of up to \$1,500, applicable only during the first two years of college.

**LIFETIME LEARNING CREDIT:** credit of 20 percent of your tuition, room, board and expenses up to \$10,000 (\$2,000 max).

**TUITION AND FEES DEDUCTION:** deduction of up to \$3,000 of tuition and fees at an eligible college, university or vocational school.

> To find out if you qualify for these benefits, call the IRS Help Line at 1-800-829-1040 or visit their website at [www.irs.gov](http://www.irs.gov).

[Resource: [www.wiredscholar.com](http://www.wiredscholar.com) and [www2.salliemae.com](http://www2.salliemae.com)]

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**what's the diff?**

$\$1,000$  [TAX DEDUCTION]  $\times$  28% [TAX RATE] =  $\$280$  [TAX SAVINGS]

WHEREAS:  $\$1,000$  [TAX CREDIT] =  $\$1,000$  [TAX SAVINGS]

DEDUCTIONS USUALLY GIVE YOU LESS BANG FOR YOUR BUCK THAN CREDITS. CREDITS ARE SUBTRACTED FROM THE TAX AMOUNT YOU OWE, WHEREAS A DEDUCTION REDUCES YOUR TAXABLE INCOME.

**THE BOTTOM LINE:** With over \$2.5 billion in tax returns going unclaimed during 2000, make sure you fill your forms out right, and a piece of that just might be yours.

Editor's Note: All advice and recommendations are meant for educational purposes only. Information may have been abbreviated, and it is recommended you visit the IRS's web site at [www.irs.gov](http://www.irs.gov) for additional information. You should not make financial decisions based on partial information contained here without the advice of a qualified professional advisor.