



Extension News Column

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Tax time will soon be upon us. This is a time when pinching pennies becomes extra important. I don't mind paying my share of taxes, but I don't want to pay mine and yours as well. Now is the time to get organized before we face that looming April 15th deadline.

Tax deductions must be backed up by paperwork and receipts. So keeping up with these papers can sometimes be a challenge. Even if your record keeping is less than stellar during the past year, now is the time to set up a system to help with your taxes for next year. It doesn't have to be complicated. Use a file folder that you drop in everything during the year that is related to taxes. In my case, I put everything on a certain shelf in the cabinet. Then when the time comes to do my taxes, all the receipts are in one place.

If your taxes are relatively simple, you may not need to pay someone to complete your tax return. With the information we can access from the internet, we can file our taxes with minimal to no filing fees. The Internal Revenue Service has partnered with several different income tax programs to provide free federal and tax filing software online. Just go to www.IRS.gov and select one of the programs for filing. Don't purchase software packages at your local office supply store, instead search online and you should be able to find the same filing programs and save as much as \$10 per package.

Several of the large tax preparation firms offer tax anticipation packages. These are simply loans on the amount of your refund, and they come at a very high percentage rate. Don't use "pre-funding" methods of collecting your income tax refund before you would normally get it. This option, while convenient, can be very costly. The Internal Revenue Service has reduced the time to get a refund, so this makes for a very expensive short term loan.

When your taxes are complete, take a good look at the amount of the refund. The average refund in 2008 was \$2428, which is a lot of money. A tax refund means that you overpaid throughout last year. Those of you who get those big refunds might consider making an adjustment to your withholding so you have the additional money instead of the IRS holding it until taxes are due. I always aim to come as close as I can to the actual amount of taxes owed. I want to pay a little, so I have access to my money throughout the year, rather than have it in the IRS's coffers.

In general, it's not a good idea to make an interest-free loan to the government or to anybody else. Most people would do better by adjusting their withholdings to take home more every week instead of winding up with a huge refund at the end of the year.

For others, waiting to get that tax refund in the spring might be the best way to save money. Everybody has different levels of discipline with their personal finances. Do what works for you. Taxpayers who get a big refund or a big bill and want to get closer to their true tax liability next year can change the amount of taxes withheld from their paychecks. Now is the time to make those changes on withholding.

The tax man cometh, but careful planning can help you obey the law but still have something in your pockets. A little later this spring we'll take a look in this column on what is the most effective way to use that tax refund when it comes in.