

20 Little-Known Tax Tips

How to Save Big on April 15

If things like Girl Scout leader uniforms and Weight Watchers meetings can be tax deductible, why aren't more people deducting them on their return? Two reasons, says Sandy Botkin, author of *Lower Your Taxes—Big Time! Wealth-Building, Tax Reduction Secrets from an IRS Insider* (McGraw-Hill Trade). First, people don't have time to sift through the new tax rules to find the ones that relate to them. Second, many think that because they don't make a lot of money, these deductions aren't available to them. These little-known tax breaks can help you pay less.

1. Merchandise donations Most taxpayers write off only cash donations they've made during the year. But the IRS also recognizes donations of old clothing, furniture and household items, says Jeff Schnepfer, author of *How to Pay Zero Taxes, 20th Edition* (McGraw-Hill Trade). Most charitable organizations will give you a receipt for these donations. If you don't have one, just make sure you have a record of what you gave and when and, if the total value is less than \$250, you can take the deduction. "Even if you make a pecan pie for a church bake sale, you can write off the ingredients if you have a receipt," says Schnepfer.

2. Gifts of time If you volunteer your time, whether as a Big Sister or a driver for Meals on Wheels, there are several intangibles that you can write off. For example, you can deduct the mileage you put on your car while driving to and from the charitable organization. So if you drive from your office, say, to your church's religious education office, you can write off the mileage, at 14 cents per mile. You can also write off anything you pay for or use—nonreimbursed craft materials and dry-cleaning bills—while doing charitable work.

3. Car registration fees In certain states such as Iowa and Virginia, the department of motor vehicles charges a personal property tax when you register or renew your license plates. If

the tax is based on the value of the car, these charges (which range from \$100 to \$500) are deductible if you itemize, says Charley Blaine, managing editor—personal finance of CNBC's MSNmoney online.

4. Property inspection If you're a landlord, thoroughly document how often you drive to inspect your property, or how often you use your car to run errands related to your rental, so you can write off the mileage. This also includes trips to a home improvement store or to the zoning board.

5. Home-office deductions As long as your home office is used exclusively and regularly for business, you can write it off as a tax deduction, says Kathy Burlison, a tax research specialist for H&R Block. This applies even if you have a part-time business such as Avon or another type of home-party business. If you qualify, you can write off every piece of business equipment, including your computer, paper shredder and the like. This deduction also includes proportional parts of bills for cleaning service fees, utilities and Internet access.

There is, however, a limit to this deduction. You can write off only that portion of expenses that directly correlates to the size of your home office.

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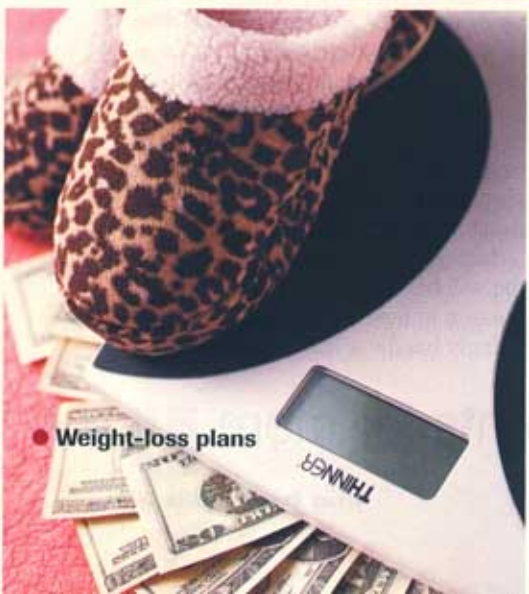
• Higher education



• Job-related expenses



• Weight-loss plans



“ Deduct your first dry-cleaning bill after a business trip. ”

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For example: If your house is 1,200 square feet and your home office is 120 square feet, you can write off one-tenth of your mortgage fees, home insurance, cleaning bills, utilities and taxes.

6. Travel, meals and more If you're a small business owner, it's a mistake not to take entertainment, travel and meal deductions, even though these often flag a return for audit. "Just be sure to keep good records," advises Botkin. This includes business meals with friends, mileage to the post office and incentives such as parties.

7. Mom's little helpers If you own a business, you can hire your kids to do age-appropriate jobs and claim them as more than a standard deduction. Aside from teaching your kids the value of a dollar, you'll avoid paying federal taxes on the first \$4,700 they earn.

8. School costs In the past you could deduct student loan interest for up to 60 months from the time you started repaying the loan. A new tax law now gives you as much time as you need to pay off the loan—and you can deduct up to \$2,500 of interest each year. This applies if your annual income is less than \$65,000/single filers (phase-out starts at \$50,000); \$130,000/couple filing jointly (phase-out starts at \$100,000).

9. Continuing education If you or a family member is currently in school, whether or not you itemize deductions on Schedule A, you might qualify for up to an additional \$3,000 deduction for yourself, your spouse or your kids. As long as you make less than \$65,000 a year (\$130,000 if you're married and filing jointly), you can take an adjustment to your income on form 1040 or 1040A.

10. Your child's future You can put away up to \$2,000 in a Coverdell Education Savings Account for your child. In the past there was a \$500 cap on this account and it had to be funded by December 31. Now you have until April 15, 2003, to start a 2002 Coverdell ESA. You can withdraw funds tax free from the account for elementary/secondary school, as well as college/university tuition and fees.

11. Teachers' aid If you're a teacher, principal or aide in grades K through 12, this year you're eligible for an across-the-board \$250 deduction for nonreimbursed school purchases made during the year. In the past you could deduct supplies only if you itemized and your overall deductions exceeded a two percent floor. Now the deduction is applicable whether or not you itemize.

12. Weight-loss help Diet food isn't a tax deduction, but the cost of weight-loss programs like Weight Watchers may be. If you have a weight-related medical problem (obesity, diabetes) and you itemize deductions, you can write off registration/meeting fees.

13. Smoke free The same deductions apply for smoking-cessation programs, but not for, say, nicotine gum.

14. Medical driving costs If you drive to the doctor or to a weight-loss center, you can write off these trips.

15. Mortgage refinancing Mortgage points for the original purchase of, or for improvements to, your home are deductible. Example, on a 30-year loan, you can deduct $\frac{1}{30}$ of the points you paid each year. What you may not know is that if you refinanced your loan last year, you can write off the en-

tire outstanding balance on your original points. So if you paid \$3,000 five years ago on a 30-year loan and wrote off \$100 for the last five years, you can now write off the remaining \$2,500.

16. Capital gains taxes If you own more than one block of shares in a particular company, the block you purchased first is the one that gets sold first, unless you designate to your stockbroker the shares to be sold. You can save on capital gains taxes by designating which block of stocks you wish to sell.

17. Employer assistance If your employer provides education assistance as part of your benefits, you can now exclude up to \$5,250 of educational assistance for undergraduate and graduate school tuition, supplies and fees.

18. Business trips You can write off things like your first dry-cleaning bill after you return from a business trip.

19. Gambling losses Bingo games and lottery tickets are deductible as gambling losses as long as you can also report gambling winnings. The catch: your losses cannot exceed your winnings. To deduct these losses, attach Form W2G, showing winnings if taxes were withheld, to your return. **FC**

Should You File Online?

Last year nearly 47 million Americans chose to file their income taxes online. In so doing, they used a combination of tools, including Web sites and financial software programs that specialize in online tax filing. Here's how you, too, can take advantage of this trend.

● **Put away your calculator.** Reversing the digits in a Social Security number, incorrect computations and misplaced decimals are slip-ups that occur more often than you might think. These gaffes usually don't happen when you file your tax return online. "Because online programs compute all of the information for you—everything from which tax bracket you fall into to how much you'll get back—the software simply won't accept these types of errors," says IRS spokesman Bruce I. Friedland. Online programs also make it less likely that you'll overlook a deduction since they contain tutorials that guide you through the entire tax return process.

● **A free way to file.** A new Web site launched by the IRS and the Treasury Department, and featuring private-sector partners, is now available. It allows eligible taxpayers to prepare and file their taxes online for free. Not only

does Free File make it easy to file, it also allows you to get your refund in half the time. Once you've gathered your W-2s, interest statements and receipts, log on to www.irs.gov to locate the Free File homepage. Then follow a few simple steps to quickly determine your eligibility for this free filing service.

● **Don't be discouraged.** If you're uncomfortable putting your financial information into a Web site, not to worry. You can purchase one of several software programs that function the same way the online services do. These programs, such as Microsoft Money or Intuit Inc.'s TurboTax, can even download your financial information directly from banks, brokerages and lenders, eliminating some of the manual input necessary with online sites. Of course, this convenience doesn't come cheap. Tax preparation software can cost you as much as \$100.