

Organizing your taxes

The reason we want to be organized with our tax related items is so that we pay the correct amount of tax. Assuming that you are an honest person, this means that you would want to pay the right amount of tax as it was due and that if you were audited, you'd be able to provide the IRS with the documentation required to prove your income and expenditure.

You are probably in one of three places regarding your taxes:

- 1) You have a system set up that you use and that works for you. Great! Keep reading and see if there are any tips that you can use to tweek your system and make it even more efficient and easy.
- 2) You have a "sort-of" system that still engenders a level of panic as tax day draws near. Stay calm, help is at hand.
- 3) You have the "ostrich head in the sand" approach and haven't filed taxes for a number of years. It could take some time to organize your records, but once you have a system set up, it will be easy to sort your records and make tax time a breeze next year.

Preparing for your taxes is a large job. And the best approach with large jobs is to break them down into manageable components and work steadily on them. Fortunately, with taxes, that's easy to do.

There are three easy steps to organizing your taxes.

The **first step** is to decide which categories you need to track. This will depend on your situation and an accountant is the best person to advise you on your exact categories. Having said that, for individual taxes, it is usually not very complicated. Have a place for your income related tax information - W2's and so on. If you only have a single stream on income and you claim the standard deduction at the end of the year, that's all you need. If your income has multiple streams, create different categories for income, e.g. W2's, rental income, dividends, etc. If you claim an itemized deduction, you may want to separate the deductions into different categories, e.g. charitable donations, home mortgage interest, medical, etc. Check IRS for categories that are likely to apply to you. The IRS has all of its forms and publications online ([link1](#)), so a little research yourself can produce the likely categories for you. Click for instructions for Schedule A on your 1040 ([link2](#).)

Businesses are treated slightly differently depending on their size. For regular business, publication 535 ([link3](#)) applies. For small businesses, publication 334 ([link4](#)) has relevant information. Check the deductions that the IRS likes to see itemized and there are your categories. If you know that you have only a small number of items each year in several categories, it's okay to combine the categories. Remember, the point to having the categories is so that it's easier at the end of the year to collate them and, so that if you or the IRS has a question about a particular transaction or set of transactions, it's easy for you to retrieve the documentation.

The **second step** is to create a structure for your tax related items. In the simplest case, this would be a

folder, an envelope, a box, any container that can hold all your tax information for the year in one place. In the most complicated case, the container would have separate compartments for each type of income and expense category you could possibly use in your tax return.

I recommend having a container that is easy for you to use and that you like, since then, you are more likely to use it. Here are some options:

Three-ring binder - have dividing tabs for different categories. Either staple smaller pieces of paper, e.g. receipts, to letter size paper, use binder pockets or sheet protectors to collect all the relevant items.

Accordian file - these come with a variety of number of compartments. Choose one that has a sufficient number of compartments.

Check file - essentially a small accordian file.

File box - comes in either cardboard or a more permanent material, such as plastic. You create places for different categories using hanging files and file folders.

Filing cabinet - again use hanging folders and file folders to create homes for categories.

Electronically - be rid of the paper altogether. There are several receipt scanners available on the market that allow you to copy and store your receipts electronically. Either tag the files with the category and put all the receipt files in one folder, or create folders for each category - just as you would in your paper filing system.

The **third step** is to create a structure for recording your tax related items. Either you do this at the end of the year (most difficult), or you do it periodically during the year. The trick is to deal with the recording frequently enough that each session is easy and doesn't take long. If you have a large number of transactions to monitor, then you need to record your tax items more frequently than someone who only has relatively few items to record.

There are a number of different ways to record your tax items. Here are some options.

Paper:

As a summary on a separate piece of paper with your receipts, income statements, etc.

In a ledger/journal system.

Electronically:

Using spreadsheet software. It is possible to set up your spreadsheet to automatically calculate category totals and other useful things.

Using accounting software. Wikipedia ([link5](#)) has a comparison of a good range of accounting software packages. Which software you use will depend on your usage, some are designed for home

accounting, some for small businesses, and some for fully fledged businesses. As long as you check that items are categorized correctly, it will flag your taxable deductions in the various categories.

There is a learning curve associated with any electronic software, but once you have it mastered, it can take less time to accomplish any particular task and you can typically do other financial tasks easily, such as set up budgets based on past expenditure and such like.

After you've done your taxes for the year, retain a copy of your tax return with necessary supporting documentation and archive together.

In the end, being organized for your taxes is no mystery. It does take a little preparation, and frequently doing small amounts keeps the task manageable.

The content of this article is meant for informational purposes but does not constitute tax, financial or legal advice. Consult a tax professional regarding declaration of income categories and deductions applicable to your personal situation and the length of time to retain documentation that would be applicable to a specific case.

© 2008 Katherine Macey