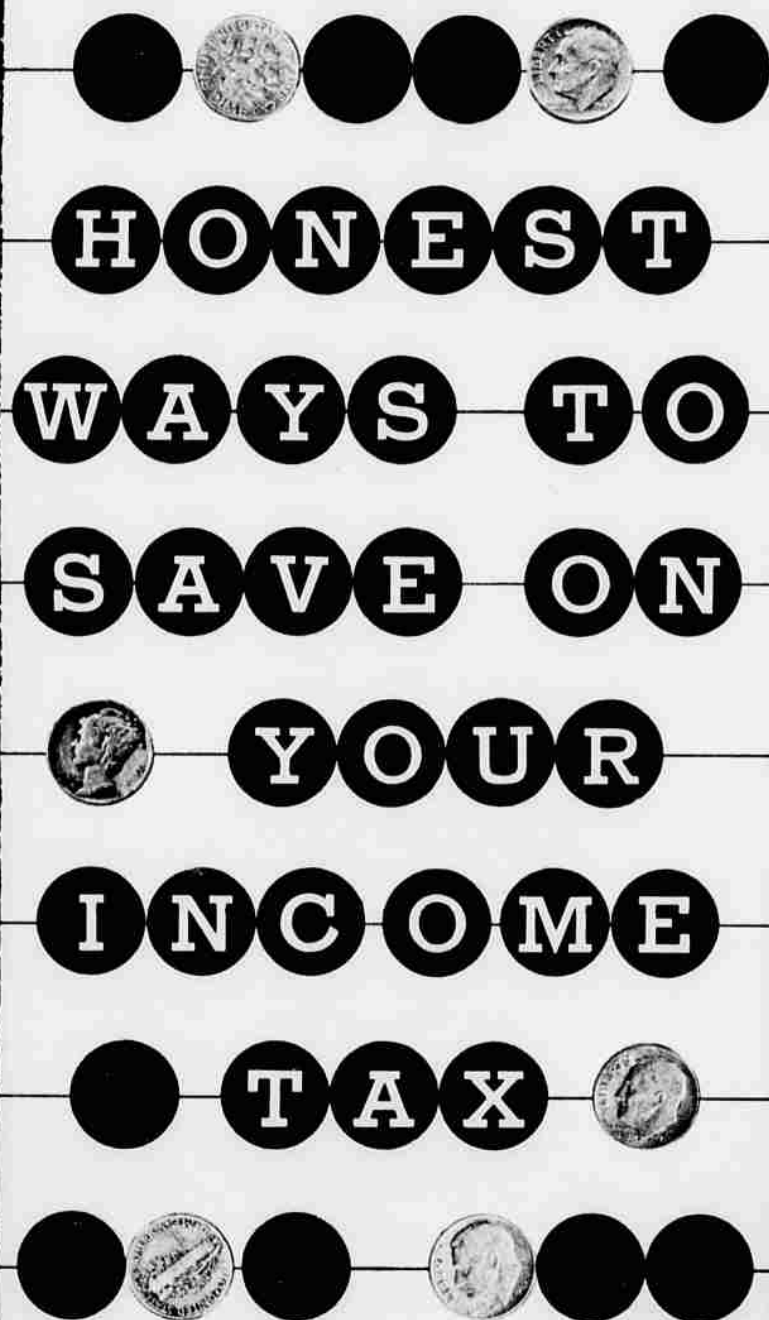




*There's no
and surprising,*

MILLIONS OF PEOPLE will pay too much in taxes during the next few weeks. If you fail to take the deductions, exemptions, exclusions, and credits to which you are legally entitled, you may be one of them.

If you pay more income tax than you should, there is very little chance that the Internal Revenue Service will correct your mistake.

But if you pay less tax than you should, chances are very good that you will be called by the tax men and asked to explain. Each year, the Government gets a little tougher, and this year it will be tougher than ever.

Though you may already be aware of some of the ways to save on income tax discussed here, be sure you haven't overlooked any when you start figuring out how much you owe Uncle Sam or, hopefully, how much he owes you.

Some Income Isn't Taxable

Certain kinds of income aren't taxable at all, and there's no point in reporting them. Social Security benefits, gifts (from Aunt Mary, Grandfather Seth, or anyone else), insurance-policy death benefits, state unemployment benefits, accident- and health-insurance proceeds, and veterans' benefits are examples. There are others, too, but that will give you the idea.

If you were away from your job sick last year, be sure to check the sick-leave provisions of the tax law. The basic rule is fairly simple: If you were out because of an injury or were hospitalized, you needn't pay tax on up to \$100 a week of your wages. If you were merely ill at home, the tax-free \$100-a-week starts after the first week.

Deductions—It Pays to Be Penny-Wise!

Watch your deductions. Most people take the standard 10 percent deduction up to the \$1,000 maximum and don't bother itemizing. Often, they actually pay less tax than if they did itemize. But it does pay to figure your tax both ways before deciding which to use.

Everyone is aware of the big items—interest on the mortgage, contributions to the church, state and local taxes, and such. It's the small ones that tend to slip by.

The fender on your car may have been dented early last year. Any part that wasn't covered by insurance is a casualty loss, deductible on your tax return. Same goes for a cigaret hole burned in the arm of your sofa on New Year's Eve, storm damage to a tree in your yard, or the theft of a suitcase from your car while you were on a trip.

Don't overlook such items as the gas you bought to drive the family car on church business, clothing you contributed to the Salvation Army, contri-

*accounting for some deductions—but they're legal
and you owe it to yourself to know them all*

By MILTON CHRISTIE, Editor, Kiplinger Tax Letter

butions to the local volunteer fire department, and other small charitable donations. If you bought something on the installment plan last year, remember that the interest you paid is deductible. And if the bill of sale listed only a "carrying charge," you may assume that 6 percent of the average unpaid balance during the year was interest (unless the carrying charge for the year was smaller, which is unlikely). If you prepaid a mortgage last year because you sold your old home or got a cash windfall, there's a good chance that the mortgage holder charged you a penalty for it, perhaps 1 percent of the payment. This also is deductible as interest.

There's More to Medical Expenses Than Meets the Eye

The rule for deducting medical bills is that only the excess over 3 percent of your income is deductible, unless you are 65 or over. This has the effect of reducing the amount of medical deductions, if any, as your income rises. But as your income goes up, the value of a deduction likewise increases, so don't overlook any possible deductions in this area.

Accident- and health-insurance premiums, for example, are just as much a medical expense as a doctor's or dentist's bill. (But if the insurance company reimburses you directly for a medical expense, don't also deduct the expense itself.) If you had to take a taxi to the doctor's office for medical treatment or to visit your sick child in the hospital, the taxi fare is a medical expense, too. In fact, just a few months ago, the U.S. Tax Court allowed a person to deduct the cost of an airplane trip from Los Angeles to New York to visit his doctor for a checkup.

Other outlays which can be figured in your medical expenses include eyeglasses, hearing aids, false teeth, air conditioners bought on doctor's orders, trips to Arizona or Florida ordered by the doctor, and even an elevator installed in your house if you're not permitted to climb stairs. But such a home improvement, to be deductible, must not increase the value of your house.

Tally your drug bills, too, since any amount above 1 percent of your income can be added to your other medical bills.

Who's an Exemption, Who's Not?

The \$600 personal exemptions allowed for yourself and your dependents are well known, yet there is a fairly common exemption situation that is frequently overlooked. It happens when aged parents are supported by more than one child and when none of them contributes more than half the support. In most cases, a taxpayer must supply at least 50 percent of a dependent's support in order

to claim him, but the law makes an exception where a number of persons chip in and between them pay more than 50 percent. In such a case, they may decide which of them will claim the exemption, as long as the one who actually claims it paid more than 10 percent of the support. This taxpayer then must file with his tax return a written declaration (Form 2120) from each of the other persons, but that's all the red tape involved.

If a dependent lives with you, you can figure the fair rental value of his lodging quarters as part of your contribution to his support.

There is another not-infrequent situation which may enable you to get a dependency exemption you haven't been claiming. Say your father, who is retired, has an income of \$1,000 a year from his Social Security pension. Suppose you contribute another \$900. Ordinarily you would lose the exemption for him since you did not pay more than half his support. However, if he saves \$150 of his pension, the \$900 you contribute will constitute more than half his support.

You could even increase the amount you contribute by giving him part of the savings you realize on your taxes.

Don't forget, too, that the \$600 income test which disqualifies a person as a dependent does not apply to children under 19 or those over 19 if they are students. No matter how much they earn, their parents can claim them as dependents if they provide more than half their support. An additional break here is that the children also get a personal exemption for themselves.

What Tax Credits Should You Be Aware Of?

There are two kinds of tax credits on your return which you should be familiar with. One applies only to persons 65 or over and gives them a reduction in taxes equal to 20 percent of the first \$1,200 of income they get from annuities, interest, rent, or dividends. If both husband and wife are at least 65, this benefit could amount to as much as \$480. The credit is reduced, however, if a Social Security pension is received.

The other credit applies to dividends on stocks. What it does, in short, is let you deduct from your tax an amount equal to 4 percent of your dividends after the first \$50, which is not taxable at all. Incidentally, if you're married and all your stocks are registered in your name, think about putting some in your wife's name or registering them jointly. This will let you exclude up to \$100 of dividends—\$50 for each of you—from your taxable income.

If you held more than one job last year, you might well be in line for another tax credit. If you earned more than \$4,800 for the year, you probably paid too much Social Security tax. Any amount over \$120 is too much, and you are en-

titled to get it back. You can either get a refund or apply it against any income tax you owe.

Three Tax Forms Still Mean One Headache!

Which form you use to file your return usually won't make much difference on your tax, although it can make a difference in preparation time.

The three basic forms are 1040A, 1040W, and 1040. The 1040A is the easiest to use, but not everyone may use it. It's merely a small punch card, and the district revenue director will compute your tax on it if you don't want to. But its use is confined to those who had less than \$10,000 income, of which no more than \$200 was income on which no tax was withheld, such as non-withheld wages, dividends, or interest. Those who use 1040A may not itemize their tax deductions, claim business expenses, exclude sick pay, take the dividend credit, or any number of other things.

Form 1040W is new this year and consists of only two pages. It is designed for those whose income comes only from salary, wages, tips, bonuses, etc., regardless of how much it is, and who have no more than \$200 of interest and dividends. This form allows you to itemize deductions if you want.

Form 1040 is the longest and the most troublesome. But it also is the form without any restrictions, the one that lets you claim anything to which you are entitled.

Married persons must decide whether to file a joint return or two single returns. In most cases, the joint return will save some tax. However, contrary to general belief, this is not always true. Take a couple who both work. He earned \$5,000 last year and she earned \$3,500. Their medical bills cost them \$250. If they file a joint return, no part of this expense will be deductible because of the 3 percent limitation. But if they file separate returns, the husband will be able to deduct \$100 of it on his return. (If the bills were paid from the wife's income and she takes the deduction on her return, it will amount to \$145.)

The best thing to do is figure your return both ways and see which comes out better. The way you filed in previous years does not bind you for this year, and the way you file this year will not bind you in future years.

More unnecessary taxes probably have been paid by midnight-oil burners who work until the wee hours of April 15 than by any other group. It's just too easy to overlook things in the last-minute rush. Take your time by filling out your return well in advance of the deadline, then put it aside for a while. A fresh look at it often will show you where you missed something. Besides, think how you'll feel on April 14 when you can tell friends that you've already finished your tax return.