

Minding Your Money

Nichole Baker, *Certified Financial Planner™*



5 Tax Tips... and Some History About Tax Policy in the U.S.

■ It's that time again to prepare for the inevitable – taxes (not death).

Yes, my friends, I'm afraid it's that time of year again. Regardless of your political views, the fact of the matter is that we must pay taxes.

In case you don't, tax returns must be post-marked by Tuesday, April 15.

History of the Income Tax in the United States

In this section, let's take a look at the history of income tax in the United States. This section is courtesy Ernst & Young LLP.

In 1862, to support the Civil War effort, Congress enacted the nation's first income tax law. It was a forerunner of our modern income tax in that it was based on the principles of graduated, or progressive, taxation and of withholding income at the source. During the Civil War, a person earning from \$600 to \$10,000 per year (assuming 3 percent inflation per year, that's \$38,000-\$645,000 in today's dollars) paid tax at the rate of 3 percent. Those with incomes of more than \$10,000 paid taxes at a higher rate. Additional sales and excise taxes were added, and an "inheritance" tax also made its debut.

The Act of 1862 established the office of Commissioner of Internal Revenue. The

Commissioner was given the power to assess, levy and collect taxes, and the right to enforce the tax laws through seizure of property and income and through prosecution. His powers and authority remain very much the same today.

In 1868, Congress focused its taxation efforts on tobacco and distilled spirits and eliminated the income tax in 1872. It had a short-lived revival in 1894 and 1895. In the latter year, the U.S. Supreme Court decided that the income tax was unconstitutional because it was not apportioned among the states in conformity with the Constitution.

In 1913, the 16th Amendment to the Constitution made the income tax a permanent fixture in the U.S. tax system. The amendment gave Congress legal authority to tax income and resulted in a revenue law that taxed incomes of both individuals and corporations.

Helpful Hints and Resources for Tax Planning

Although there's not much we can do right now about having to pay income tax, there are some steps we can take to keep as much of our earned income in our pockets as possible (legally, of course!) and make the time a little easier on our mental well-being. If you don't

already have a tax adviser, consider using one. If you choose to prepare your taxes yourself remember the following:

First, the following link is helpful: http://www.irs.gov/pub/irs-utl/2003_taxhints_pub.pdf

■ Although most of your payments had to be made by December 31, 2002, you can still fund your IRA and deduct the amount from your income for 2002. See the above link for maximum amounts and eligibility.

■ Should you itemize? That depends. Money paid for medical care, mortgage interest, taxes, contributions, casualty losses, and miscellaneous deductions can reduce your taxes. If the total amount spent on those categories is more than the standard deduction, you can usually benefit by itemizing. The standard deduction amounts for 2002 are:

Single: \$4,700 Married Filing Jointly: \$7,850 Head of Household: \$6,900

■ Have kids? Remember that you can deduct childcare expenses and claim a credit up to \$600 per qualifying child under age 17. Be sure check out the rules. It's nice to have your kids put money back into your wallet for a change!

■ If you're expecting a refund, you can speed things up by filing over the Internet. E-file and direct deposit will get that money in your hands much more quickly. Check out the IRS website for details, www.irs.gov, or call toll free (800) TAX-FORM (800-829-3676).



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■ Espanol? You can also talk with a Spanish-speaking IRS representative by calling the toll-free customer service line at (800) 829-1040.

I hope these tips and resources will help you reduce the hassle associated with tax season. Good luck and tune in next month to get some great ideas of what to do with that big refund you'll get! ■

To get a copy of the easy- to-understand **Choosing a Planner** information kit and checklist, contact Nichole and she'll mail one to you **FREE:** (626) 441-0838.

NOTE: When you leave your name and address, please speak slowly and clearly, and repeat it. We want to make sure we have the correct information to get you your information.

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