YAHOO! FINANCE

Tax Tips for Procrastinators

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By Karen E. Klein for BusinessWeek

April is right around the corner, which means it's tax time for individuals and unincorporated small businesses. If you're one of the many entrepreneurs who has put off thinking about taxes until the last minute, you're certainly not alone. Smart Answers columnist Karen E. Klein recently asked several tax experts to discuss common issues and offer advice for tax-return procrastinators.

Stop Stalling. Although you're getting a late start, you've still got two weeks to pull your paperwork together, figure out if you're missing documents, and track them down from your clients, vendors, or lenders. Along with all the practical reasons to get cracking, this year there's a financial incentive as well, says Kathy Harrison-Suits, a federally licensed, enrolled agent with Summit Capital Advisors in Tacoma, Wash. "In order to qualify for your tax stimulus rebate, you have to file your tax return. There's one more reason to get it done sooner rather than later," she says. Tax rebates will range from $300 to $1,500 for most households, but they won't be mailed until your return is filed with the IRS. So stop beating yourself up, and get to work. "It's normal to procrastinate, everybody does it," she notes.

Use Last Year's Return. When you sit down at that kitchen table with piles of paperwork, it can be overwhelming. Start by letting your 2006 return be a guideline for the documents you should have. "If you had an item of income or expense last year, you'll probably have the same thing or similar this year," says Keith Hall, a national tax adviser for the Dallas-based National Association for the Self-Employed. "It's a good way to check off the documents you need to file and go searching for the ones you're missing."

Check and Double-Check. Take your time and double-check all your numbers before you file. If you prepare your tax return yourself, use an automated software package. "If nothing else, it will eliminate math and number transposition errors, which are the No. 1 reason the IRS kicks back returns for corrections or more information. If you file online, the IRS software will check your math for you," Hall says. "Nobody wants to get that little white envelope with 'IRS' in the return address corner."

Hire a Pro. Although most entrepreneurs are probably capable of preparing their own returns, especially with today's affordable software, having a professional put together your return is preferable. "I recommend a professional, given the current IRS environment where audits are getting more common," Harrison-Suits says. Getting help is probably more cost-effective than you think. "Consider how many hours you'll have to spend, how much time it will take away from your business and your kids, and how much you'll spend on Advil," Hall advises. "Based on the sheer complexity of the tax code, it's probably worth it to pay a couple hundred dollars to have someone do it for you." Particularly if 2007 was your first self-employed year, or you bought or sold significant assets, or you brought on an employee, it's advisable to use a professional. Next year if things are pretty much the same, you might be able to do it yourself by following your 2007 return.

Don't Leave Money on the Table. Look through your business checkbook to find deductible business expenses, but don't forget there are legitimate expenses that don't turn up in your checkbook or your credit-card statements, like business use of your car or home office deduction. If your firm operates out of a home office that takes up 12% of the total space of your home, you can probably deduct 12% of your home mortgage expense, as well as additional expenses such as home repairs, utilities, and maintenance costs. If you use your car for business, Paul Stappas, a strategic planning consultant with Neshanic Station (N.J.)-based Bookkeeping Administration Management, says you can claim depreciation on your car, as well as deduct gasoline, oil, tolls, and vehicle repairs. Make sure you have a simple logbook where you document the business miles you put on your car, he says.

If you're like many entrepreneurs and you mix your personal and business expenses together, don't forget to deduct business items such as stamps, travel expenses, business telephone, and the cost of entertaining clients. "If you take a client out for coffee and a donut, you might spend $10 or $15 these days. That's a deduction you should be taking," Stappas says.

Pay Now. Even if you file for an extension on Apr. 15, get as much information to your tax preparer as possible and pay now what you think you're going to owe. Do your best possible calculation of your tax liability and send in that amount, along with your request for an extension. "It's critical to get as much of your paperwork as possible to the preparer, even if you can't finalize your return before Apr. 15," Harrison-Suits says. "You need to pay any estimated tax liability that needs to be paid so you can avoid penalties and monthly interest." The extension allows you additional time to file your return -- but not to pay your tax.

If you do not have the money to pay your taxes in full, you can file IRS Form 9465, an installment agreement request. It's basically a loan from the government that accrues interest and penalties, so pay as much as you can up front and then schedule payments for the remainder.

Take One Last Opportunity. Most tax planning ends with the New Year's Eve party, but you can still make certain retirement contributions that apply to your 2007 tax year until Apr. 15, 2008 -- or Oct. 15, 2008, if you file for extensions. You can put $4,000 into your IRA ($5,000 if you're over 50), says Stappas, or set up a SEP-IRA and fund it with the lesser of $46,000 ($51,000 for those 50-plus) or 100% of your entrepreneurial compensation. "Say you're making $30,000. You could put that all away and not pay any taxes on it," he says -- assuming, of course, you have another income from a spouse or a day job.

Plan for Next Year. Don't procrastinate in 2008. Lack of planning can translate into lack of tax deductions and increased liability, all the experts say. And rather than put away a few thousand for your retirement in an IRA or SEP, if you plan now you can set up a relatively simple, inexpensive but more powerful retirement plan where you can put away $100,000 or $150,000 annually. However, these types of plans are more complicated and costly to set up and administer. The good news is, thanks to the pension reform act passed in 2001, up to half of your first $1,000 spent on pension administration can be taken as a tax credit, says Steve Beatty, founder and president of InVest Financial Solutions for Business, a Las Vegas-based small business consultancy. "You could create a 401(k) or profit-sharing plan in 2008 and get a larger tax deduction next year," he says. "These plans' annual expense rates have gotten competitive, and it is probably a lot less expensive than you think." One client worried it would cost $50,000 to set up a pension plan for his company, Beatty says, when it actually cost $3,000.

Harrison-Suits advises her clients to hire a part-time bookkeeper, or go to a bookkeeper on a quarterly basis throughout the year. "If you get quarterly reports filed through a bookkeeper, once your fourth-quarter report is completed you'll basically have your tax records for the year ready to go and all you have to do is turn them all over to your preparer" in January, she says. Doesn't that sound nice?