THE **ZEN** GUIDE TO TAXES

WHEN IT COMES TO YOUR INCOME TAXES, IGNORANCE IS DEFINITELY NOT BLISS. HERE'S WHAT YOU NEED TO KNOW TO STAY SERENE ON OR BEFORE APRIL 15.

BY AMY LYNN SMITH,
an award-winning writer who has covered lifestyle and business topics for more years than she can count. After all, words are her specialty—not numbers—so she bows in gratitude to her accountant and financial planner.

TAX PLANNING ENLIGHTENMENT BEGINS WITH MINDFUL PREPARATION THROUGHOUT THE YEAR. TURN YOUR FISCAL EYE INWARD WITH THESE TECHNIQUES.

No day fills Americans with dread quite like April 15: Income Tax Day. Unless you're expecting a refund (lucky you), this is your day to pay the piper. And chances are, there's at least some anxiety between lines 1 and 76 on your 1040 as you prepare to file.

But this year can be different. Honest. We've gathered some expert tips on ways you can ease tax-time tension.

Keep It Together

One of the best ways to avoid breaking a sweat over your taxes is by staying organized throughout the year.

"If the meek will inherit the Earth, the organized get to run it in the meantime," says Phillips Hinch, assistant director of Government Relations for the Financial Planning Association. "The first step in calming your nerves is to have one place to put all your tax documents."

Even if you do nothing more than toss your annual tax-related documents into a drawer or, yes, a shoebox, you're taking a step in the right direction. For extra clerical credit, create files for specific kinds of paperwork. And if you make donations or do other tax-related transactions online, Hinch suggests e-mailing a copy of the receipts to yourself with an obvious subject header, such as "2010 taxes," to make finding them later a cinch.

If you use a tax preparer (more on that in a moment), be sure to hand over essential documents, says Cindy Hockenberry, research coordinator for the National Association of Tax Professionals. Along with the shoebox, deliver a copy of last year's return if you're working with a new preparer.

Had a baby during the year? Congratulations! Now don't forget to give your preparer your new baby's Social Security number (SSN). Bring SSNs for any other children you may have, too, along with their birth dates.

If you want to e-file and have any refund deposited directly into your bank account—which Hockenberry recommends—bring a voided check with you to keep the process moving along.

Last but not least, don't wait until April 10 to call your preparer. Some won't even make appointments during the week leading up to April 15. "Of course, if you're getting a refund, you'll probably want to file as soon as possible," Hockenberry says. "If you owe money, you can still get your taxes done early."

Seeking Guidance vs. Going Solo

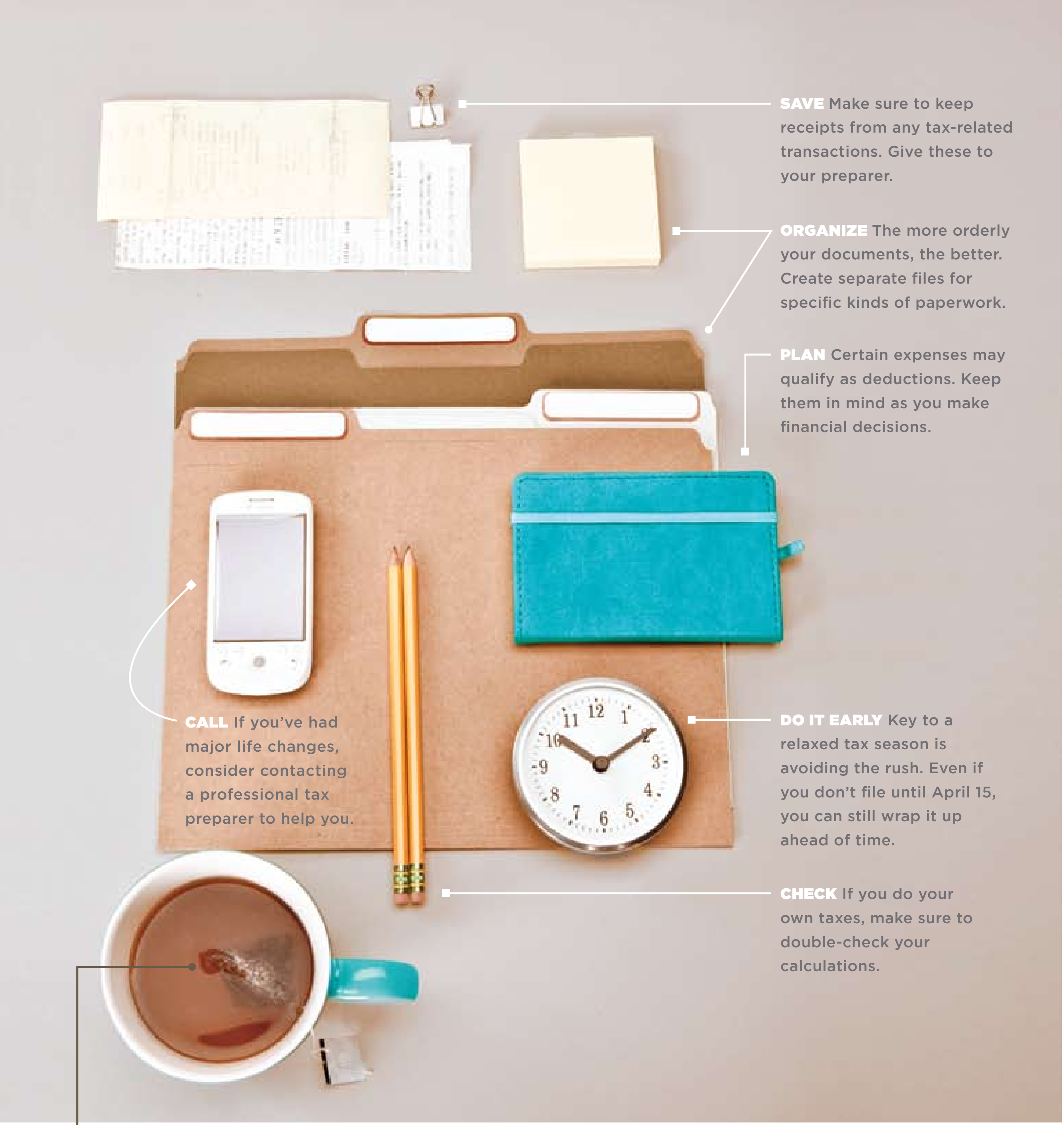
Wondering whether you should do your own taxes or pay a professional? Hockenberry and Hinch agree that if you've had a major life change in the past year—such as getting married, having a baby, buying a house or starting a business—it's a good idea to hire a professional tax preparer.

"A lot of people just look at last year's return and use that as a guideline," Hockenberry says. "But if their tax situation is drastically different from the year before, they might not have a clue where to begin." And major change or not, many people rely on a tax preparer given how "confusing and complicated" the U.S. tax code is, Hinch says. Though more helpful than the old-fashioned No. 2 pencil and calculator, even tax preparation software can be tricky if you aren't tax-savvy.

A professional may find more deductions than you could (that pesky tax code can make it tough to uncover what you're eligible for), which could end up paying for the preparer's fee. Plus, you can save yourself a lot of time and aggravation by letting someone else crunch the numbers.

There's also the benefit of having your return signed by a professional, Hockenberry adds. "If your preparer makes a mistake, his or her firm might pay the interest and penalties," she explains. "And if your return is selected for audit, you could take your preparer with you, which provides a level of comfort."

If you do use a tax preparer, she suggests finding one who will be available for a mid-year review, an especially smart move if you make estimated quarterly tax payments, say, because you're self-employed. By mid-year, you'll have a better sense of your earnings and can adjust your payments accordingly.



SAVE Make sure to keep receipts from any tax-related transactions. Give these to your preparer.

ORGANIZE The more orderly your documents, the better. Create separate files for specific kinds of paperwork.

PLAN Certain expenses may qualify as deductions. Keep them in mind as you make financial decisions.

CALL If you've had major life changes, consider contacting a professional tax preparer to help you.

DO IT EARLY Key to a relaxed tax season is avoiding the rush. Even if you don't file until April 15, you can still wrap it up ahead of time.

CHECK If you do your own taxes, make sure to double-check your calculations.

TEA AND TAXES The relationship between the two is notoriously rocky. Fed up with the English Parliament's tax on the beverage, the American colonists dumped 45 tons of the stuff into Boston Harbor in 1773. The event was a prelude to the American Revolutionary War, which started in 1775. But both the Boston Tea Party and stressful returns are a thing of the past. Reflect on tax history (the country's and yours) with a tax-time cup of calming herbal tea. We suggest chamomile, which is known to relieve tension.

"You don't want to be surprised that you have to cough up an extra $5,000 in April because you had a good year," Hockenberry explains, "but you also don't want to be giving the IRS money you could be using."

Even people who work for someone else can benefit from a quick mid-year chat with their tax preparer. You can discuss the implications of various financial decisions and review your withholding status. "Then you're not scrambling at the end of the year," she says.

Pick Me Up. **TEA'S NOT JUST FOR RELAXING. ACCORDING TO THE MAYO CLINIC, A CUP OF BLACK TEA HAS 40 TO 120 MILLIGRAMS OF CAFFEINE. THIS MAY COME IN HANDY IF YOU'RE AMONG THE ESTIMATED MILLIONS OF PEOPLE WHO WAIT UNTIL THE LAST MINUTE TO DO THEIR TAXES.**

Hinch does think there's value to doing your own tax return, aside from the obvious cost savings: you'll know what deductions you may qualify for, so you can keep those things in mind as you make financial decisions throughout the year.

If you do decide to tackle the task yourself, be sure to double-check your calculations. According to Hockenberry, math errors usually make the top 10 list of mistakes the IRS finds on tax returns each year.

A Rewarding Experience

Okay, now for the part everyone's most interested in: how to lower your taxes. Cheating doesn't count (and, well, it's illegal), but there are plenty of other ways to trim your tax bill. Certain life events, for example, can act in your financial favor. Here are the three biggies:

1 **Getting married.** Filing jointly is almost always a good idea, unless there's a big difference between your incomes, says Hockenberry. "In that case, you might want to figure out your return both ways, just to see which works out better." In some states, however, income is split down the middle regardless.

2 **Having a child.** Besides dirty diapers, your baby will provide you with a personal exemption, even if he or she is born on December 31 of the tax year. Other children and dependents offer additional exemptions—hopefully without the diapers.

3 **Buying a house.** Mortgage interest and property tax payments are deductions homeowners already know and love. But there are several other perks specific to this group for the 2009 and 2010 tax years. A temporary homebuyer tax credit covers home sales on or before April 30, 2010: qualifying new homeowners are entitled to a credit of up to $8,000;

SMART MONEY

A good financial plan may help you reduce your taxes and save for the future. Want to know more? Contact your agent, or call a Nationwide existing homeowners with the right credentials, up to $6,500. Making certain energy-efficient improvements to your home may also put you in line for a coupon at Uncle Sam's checkout counter. (See "Give to Mother Earth, Not Uncle Sam" on page 8 for more on this.)

But you don't need a major life change to find ways to lower your tax payments. The key is reducing your taxable income. Before you elope or make a down payment on the nearest hovel, review your life for existing deductions. Consider these ideas:

- **Moving expenses** (packing, shipping, travel and lodging) for a new job that requires you to head to another town, provided you meet the time and distance tests.
- **Some medical and dental expenses.** Two that might tie in with your New Year's resolutions: smoking cessation and weight loss programs.
- **Investment losses** that are bigger than your gains. One scenario would be if you had to sell stock at a loss. You can deduct up to $3,000 per year for this.
- **Traditional IRA or 401(k) plan contributions.** You'll be saving for retirement and reducing your tax bill. That's a simple equation.
- **Professional expenses.** "Because I work in taxes," Hinch explains, "if I take a class in that area, I can deduct the cost of that class."

Educational Enlightenment

If this article hasn't quenched your thirst for knowledge, you'll find more helpful advice on the IRS website, irs.gov. (It is possible to use "helpful" and "IRS" in the same sentence.) There are forms, filing deadlines and details about specific situations. There's even a calculator to help you figure your withholdings.

And if you're looking for an easy way to save for your future, Hinch proposes this super-smart strategy: "Raise your withholdings so you get more of a refund at the end of the year, and then immediately put that money into a retirement vehicle," he says. Most retirement investment accounts provide some kind of tax benefit. So if you do it right, you may be able to save money on your taxes while saving for your future—not one, but two ways to put your mind at ease.

IRAs MADE SIMPLE

Do you know the difference between a Traditional IRA and a Roth IRA? If not, that's okay. It isn't exactly the kind of trivia you whip out at a party to impress strangers. (It's much more fun to shock them with a stat like the top U.S. tax rate—94 percent by the end of World War II!) But IRAs do have tax-planning consequences, so consider this a timely lesson. They also have a lot of very specific rules, which you should look into before investing.

At the most basic level, the main advantage of a Traditional IRA is that you can usually deduct contributions on that year's income taxes. The bonus is on the front end. With a Roth IRA, you'll lose the initial tax deduction, but you can withdraw the principal if you need access to the money, and there's a tax benefit at the back end. The best way to determine which one is right for you is to talk to an expert.

To start the conversation, Cindy Hockenberry, research coordinator for the National Association of Tax Professionals, outlines the key distinctions between the two:

Roth	Traditional
▪ You can't deduct contributions, but if you meet certain requirements, earnings on the account are tax-deferred and never included in income.	▪ The amount you can deduct depends on your adjusted gross income, whether you're covered by a retirement plan at work and other factors like marital status.
▪ Distributions are generally not taxable.	▪ Distributions are taxable based on the earnings and deductible contributions.
▪ You can make contributions regardless of your age.	▪ You can't make contributions after you're 70 1/2 years old.
▪ You can make contributions even if you participate in an employer-provided retirement plan.	▪ If you're participating in an employer-provided retirement plan and your income exceeds certain limits, you can't make contributions.
▪ You're not required to take distributions during your lifetime, even after the age of 70 1/2.	▪ You must begin taking required minimum distributions by April 1 of the year after you turn 70 1/2.