

Staying organized can help you avoid costly mistakes

Think about it. A current TV show is dedicated solely to removing clutter and mess from homes. Niecy Nash's "Clean House" team helps homeowners let go of unused stuff, and resurrects valuable possessions which are then integrated into the masterpiece that is their family's living space. Lifestyle, comfort and need are reflected through the choice of décor, color, decorative arts and furniture arrangements.

Right now may be the best time of the year to treat your financial affairs to a 'clean house' resurrection. Within the next day, promise yourself to dig out all documents relating to the purchase of your home. These include: mortgage documents or home deed(s), any and all paid receipts relating to home improvements, and, statements showing purchase(s) and sale(s) of previous homes. Examples of improvements are the replacement of your heating and air conditioning system, landscaping work, new windows, new hot water heater, and wall-to-wall carpeting - any built-in items that won't go with you when you move.

The money you invested decades ago in a previous home may increase the 'basis' of your current home. While tracking basis may seem tedious to you, the government is quite interested in this. The short story is that the larger the provable basis in your home - when you decide to sell it - the *smaller* is your potential tax consequence. The law now offers homeowners, who meet appreciation thresholds, an exclusion from capital gains tax liability on the sale of their primary residence every two years - pending the satisfaction of certain use and ownership period requirements. From the time you purchase your first home, a tally of your principal payments coupled with your out-of-pocket improvement expenses may position you to escape taxes entirely.

When it comes to any type of documentation regarding your home, organize and keep it **forever**. Rules about maintaining information for seven years don't hold in matters impacting the basis of an investment and the potential for the IRS to come after you for income taxes. And for those who feel quite savvy about tax

laws, they do keep changing - more than 15,000 changes in the past 20 years. You don't want to be over-confident, miss a little tax law wrinkle, and end up owing - with penalty and interest added!

I realize that this assignment may take some time. However, sifting through documentation to determine what may help you save taxes is as valuable as the Clean Team's sifting through the homeowner's stuff - their prelude to restoring possessions of worth. While you are sorting, organize simultaneously so you won't have to re-visit this job. The easiest method may be a binder with plastic sleeves so related documents of various sizes can be grouped together.

Now that you're on a roll, continue organizing by using tabbed hanging files or a large tabbed binder with plastic sleeves for documents too large to hole-punch. Use these categories as a starting place: Financial Plan/Advisor Information, Income Information, Property/Investment Property, Debt/Mortgage, Taxes, Assets/Retirement, Insurance Policies, Medical Information/Health Insurance, Employee Benefits Information, Trust/Estate/Contingency Documents.

Group everything within its category, contracting or expanding subsets to fit your situation. For instance, your insurance folder/binder section might include: homeowner's policy, auto insurance policy, umbrella policy, life insurance policy(ies,) disability income policy(ies,) long term care policy(ies) - *you get the idea*. Carve out time, at least monthly, to add or subtract statements from your filing system. Remember, large paper bags and the dining room table don't count!

Protect yourself, too, by saving all year-end financial statements which start arriving early in January. Generally speaking, these annual 'hard copy' reports record detailed basis and tax reporting information. (Don't count on the same data being provided on the institution's Web site.) Hold onto these reports for as long as you own a particular investment, plus through several subsequent years of tax reporting cycles. The information they contain may well save you money.

Ultimately, staying organized 'costs' less time and may help you avoid expensive mistakes. Contact your financial professional with questions that emerge from this process. Better yet, *e-mail me with your questions* so other readers may benefit from the answers as well. Bravo to all who diligently set the stage for their family's prosperity in 2007!

Joslyn G. Ewart is an educator, financial analyst, and business owner. E-mail her at joslyn@entrustfinancial.com. Her business column appears on a regular basis in Main Line Life.