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Pull It Together This Tax Season

Getting—and staying—organized this tax season may make things a lot less taxing.

With tax-preparation season under way, do you envision yourself slogging tediously through your old financial records, with your emotional state punctuated by feelings of fear and dread?

If so, there is help. Experts say tax season doesn't have to be an annual rite of penance and punishment. One key step you can take, they say, is to find a way of organizing your records that fits your personality and style.

"For most people, organizing paperwork is not fun, so they put it off until the last minute, and that just makes it even harder," says Laura Leist, founder of Eliminate Chaos, a Seattle-area firm that advises individuals and businesses on working more efficiently. With a deadline looming, she says, "the last thing you want to do is spend all of your time looking for the documents you need."

Leist advises that you start early and take a methodical approach to organizing the records you will need to prepare your 2007 tax return. Your primary focus should be on collecting the documentation that will allow you to claim all the deductions and credits you're eligible to take, while avoiding costly mistakes. While



you're at it, establish a recordkeeping system that will ease the process for 2008 and beyond.

Start Where You Left Off

Unless you experienced some major financial events or changes in 2007, chances are that the records you will need to prepare your return will closely mirror those you required for 2006. So the place to start is with your 2006 federal income tax return, says Bernard Kiely, a certified public accountant and Certified Financial Planner™ professional from Morristown, New Jersey.

Kiely suggests that you make a list of your 2006 deductions, such as charitable contributions and mortgage interest (found on the IRS's Schedule A); of your sources of interest and

ordinary dividend income (found on Schedule B); and of the firms that sent you information on capital gains and losses (found on Schedule D).

If you're self-employed or have income from rental property, you will also want to include items from your Schedule C, *Profit or Loss from Business*, and Schedule E, *Supplemental Income and Loss*. Add to your list any entries based on new activity in 2007, and omit items that aren't relevant for 2007.

Then, go through the list item by item, checking off those for which you have 2007 documentation in hand and those for which you do not. Most of the records you need, such as a Form W-2 from your employer, Form 1099 from your brokerage firm, or Form 1098 from your

mortgage company, should have arrived by early- to mid-February at the latest.

Organize a Search Party

If you are missing statements and forms that you need to prepare your return, the Internet has made it much easier to track them down. Most financial services companies, including Fidelity, allow you to download tax-related documents.

One of the most time-consuming challenges, Kiely says, can be determining the cost basis of any assets, such as stocks, that you sold during the previous year. It's not difficult to do if you bought and sold a stock or a mutual fund through the same broker, since that broker will likely have records of any transactions you made. However, if the assets were transferred from one company to another, you will have to retrieve your records from the purchase to perform an accurate cost-basis calculation—or to enable your tax preparer to do so.

Your Form 1099-B (the form provided to you by a broker when you sell a security) doesn't necessarily show what you originally paid for the asset, Kiely says. "Tracking down cost-basis information can take a lot of time," he explains. "If you have that information ready for me, you can save a lot of money on your tax-preparation fee." In addition to the original cost basis, you also will want to provide your tax preparer with information on any adjustments to the basis of securities you sold during the year, such as dividends and returns of capital.

One of the most common mistakes, notes Kiely, is throwing away brokerage statements after seven years, which is the recommended time for keeping most tax-related documents. Kiely suggests that you keep securities-related records for at

least as long as you own the securities.

Software programs can help ease the process of tracking cost- and adjusted-tax basis. You can access products from the Fidelity Tax Center at Fidelity.com/tax.¹

Track Your Generosity

Charitable donations are one area that calls for special attention. The IRS now requires documentation for all contributions, even cash contri-

To make sure you can deduct all of your 2007 charitable donations, verify that you have receipts on hand, and contact charities as soon as possible to request any missing receipts.

butions. This documentation can be in the form of a receipt, cancelled check, or credit card statement for small gifts. However, contributions of \$250 or more require a letter from the charity confirming that you received nothing in return, Kiely says.

To make sure you can deduct all of your 2007 charitable donations, verify that you have receipts on hand, and contact charities as soon as possible to request any missing receipts.

To keep better track of your donations in 2008, Kiely suggests placing a red check mark next to charitable gifts in your checkbook or credit card statements. You can also create a simple spreadsheet where you can log your donations each month.

Prepare Now for 2008

While you are organizing your 2007 records, set up a system that will make 2008 the year you stay on top of your recordkeeping from the start. Leist suggests dropping all tax-related documents for 2008 into a single, clearly marked folder. Don't make a separate file for each type of statement, form,

or receipt. Instead, keep everything in one place so there's never a question of where you filed a particular document.

Leist also suggests that you shouldn't keep more than you need, but it is important to work with your tax adviser to determine what to retain and what to discard. Pay stubs, for example, can be discarded after you have received your Form W-2 and confirmed that the information is correct. For a complete list of what

records you need to keep and for how long, refer to the IRS's Publication 552, *Recordkeeping for Individuals*. You can get it from your local IRS office or download it at IRS.gov.

"The key," Leist says, "is to keep the right documents in the same place, with a system that works for you." •

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