There are so many things to keep track of when it comes to personal finances. Through the years I have done our personal taxes because we have a rather simple income base, but it is difficult to keep up with all of the different tax laws. Having the tax programs on the computer is extremely helpful. If it had not been for the computer program that I installed this year we most likely would have had a penalty. My brother and sister in law had a penalty and they went through a tax preparation service.

My husband’s father retired several years ago and made some great investments. He did so well that he transferred some of his holdings into each of his children’s name. This was paid out into a check for each of them. Because this payment was paid directly from the company the income was subject to capital gains tax. We each received a statement for tax purposes. My brother and sister-in-law misplaced their statement and told their tax preparer that they were gifted money by his father. The tax preparer told them that this did not have to be claimed because the amount was not large enough. A few months later they were sent a letter from the internal revenue service because they did not report the capitol gains tax. They contacted the person that had prepared their taxes. He told them that he did not realize that the money was from an investment and that they definitely had to pay capital gains tax on the amount. Because they did not produce the form that was sent by the investment company his firm would not cover the penalty. My brother in law was very upset by this. He felt that he had told him about the money and was told he did not have to claim it, so it was the accountant’s fault that they had a penalty.

This was a good lesson for all of us to learn as we prepare our taxes. We are getting to the age where gifts from parents and estates are becoming part of our income. It is important to know the difference between a monetary gift, which is not taxable as long as it is under a certain amount, and money that comes from the sale of an investment. All capital gains tax needs to be paid. Capital gain is money that is made off of an investment. If my husband’s father would have had all the money from the investment paid to him, and then cashed the check and given it to us it would have been a cash gift and would not been taxable. He would have had to pay capital gains tax on the entire amount. By splitting the funds in everyone’s name he also spread the tax responsibility.