Positive Lessons From a Tax Return

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THE last thing most people would probably want to do after filing their income tax returns is to pull out those documents and study them. But many financial professionals advise their clients to do just that; they see the tax return as a road map for improving your financial condition in the current year.

''One of my philosophies is: don't do year-end planning at the end of the year; do it all year,'' said Laurence I. Foster, a partner in Richard A. Eisner & Company, a New York-based accounting firm. ''When you get your return, it's the basis for your planning.''

Mr. Foster, who is also chairman of the committee of personal financial specialists of the American Institute of Certified Public Accountants, said investments were a good starting point, especially in today's volatile markets. ''Say you have a capital loss in a security you really like -- you paid $10, and it's down to $6,'' he said.

He and most personal financial specialists would recommend a strategy known as ''doubling up.'' That is when you buy an equal number of shares at $6, wait at least 31 days (anything less would be a ''wash sale,'' on which losses are disallowed) and sell the more expensive shares. ''On 100 shares, you have a $400 loss you can claim on your tax return,'' for this year,

assuming the price remains at $6 for the 31-day holding period, Mr. Foster said.

This strategy is most often used in the fourth quarter, but if an investor believes the market -- and his holding -- are only temporarily depressed, then it may be better to act now than to wait.

Mr. Foster also looks to see whether payroll withholding needs to be adjusted. People who have big tax balances due with their returns may have to pay a penalty for being under-withheld, and people who get big refunds year after year have been giving the government interest-free loans all year. In either case, it makes sense to file a new W-4 form with your employer. If you look forward to receiving a big tax refund each year, why not put the extra money from reduced withholdings into an interest-bearing account?

Similarly, Bart A. Zandbergen, a certified financial planner with the Financial Management Network in Laguna Hills, Calif., says he always reviews clients' tax returns to see what changes might be needed in their financial plans.

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For example, he looks at whether a client will become liable for the alternative minimum tax, or A.M.T., which was originally intended to prevent the rich from using loopholes to escape taxation but has increasingly snared the middle class. This could call for a change in investment strategy and timing state tax payments to minimize the federal bill. If the liability for the A.M.T. is a one-time event, there may be a tax credit to carry forward to future years.

Mr. Zandbergen also looks at Schedule B of the tax return to see whether investments are generating taxable income, and whether it would be better to reposition assets in tax-exempt or tax-deferred assets.

For self-employed taxpayers, ''we look to be sure he or she has maximized contributions'' to either a Keogh or other tax-deferred retirement plan, he said.

For job holders, he said, ''we compare tax returns to W-2 forms to ensure maximum 401(k) contributions'' have been made and that full advantage has been taken of cafeteria plans. These plans allow employees to tailor their own benefits like health, life and disability insurance and set up flexible spending accounts so that certain dependent care and unreimbursed medical costs can be paid on a pretax basis.

Sidney Kess, a New York tax lawyer and certified public accountant, said investors should be aware of the role that dependents play in planning ahead. He said investors in the 28 percent or higher bracket who have held appreciated securities for five years or longer and who support an elderly relative or have a child in college should not necessarily sell that stock to pay for expenses. Instead, he said it might be advantageous to give those shares to the dependent and have him or her sell them. That way, a dependent in the lowest tax bracket would have the capital gain taxed at 8 percent, rather than the original investor's 20 percent rate.

''If you have children under 14, you may want to plan to keep unearned income down,'' because under the ''kiddie-tax'' rules, such income is taxed at the parents' marginal rate. ''If you buy Series EE savings bonds, you would not have to pick up interest right away,'' he said.

ANOTHER option would be to buy tax-exempt investments for them. Conversely, if there are no investments in a child's name, Mr. Kess recommends shifting some assets in that direction because the first $750 of unearned income is not taxable this year (that is up from $700 last year), and the next $750 is taxed at their marginal rate, generally 15 percent, he said.

Finally, Mr. Kess said, if you have a capital loss of more than $3,000 on your Schedule D for the year 2000, be sure to flag the difference in your tax file for this year. Excess capital losses can be carried forward to future years to be claimed first against capital gains and then up to $3,000 against ordinary income year after year until you have used them up. ''A lot of people took a bath last year,'' he said.

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