

Tax\$avers

CUTTING YOUR TAXES

*Must know tax savings tips
to save \$1000's*



CUTTING YOUR TAXES

If you are like most taxpayers there are probably several things you can do to legally reduce the taxes you pay. Outlined below are 10 Tax\$aver tips you may be able to use to reduce your tax burden.

TAX\$AVER TIPS

- | | |
|---------------------------------|-----------------------------|
| #1 Tax Deferred Savings | #7 Non-Cash Contributions |
| #2 Leverage Home Equity | #8 Tax Credits |
| #3 Shift Income | #9 Capital Gains/Dividends |
| #4 Shift Expenses | Management |
| #5 Tax Exempt Savings | #10 Using Business Expenses |
| #6 Passing Income to Dependents | |


The list is by no means complete. It is best to set up an appointment to review your situation.

TAX\$AVER TIP #1: MAXIMIZE TAX DEFERRED RETIREMENT SAVINGS ALTERNATIVES

There are numerous savings vehicles that defer paying income taxes until funds are withdrawn. The primary vehicles are Individual Retirement Accounts (IRAs) and 401(k) or 403(b) retirement savings plans. With these programs you can invest some of your income into a savings plan without paying income tax. You pay the tax when the funds are withdrawn.

The key benefit: Your investment earnings compound over the years on a larger (pre-tax) dollar base. In addition, many employers also match your contributions in 401(k) and 403(b) plans.

Tax\$aver Alert: Tax legislation raises the annual amounts one may invest in IRA and 401(k) type plans each year. For instance, the once static per person traditional IRA contribution of \$2,000 is now \$5,000 with an additional \$1,000 if you're over the age of 50. Since these programs' annual



tax deferred contribution limits now change it is important to check the program each year and adjust your contributions accordingly.

TAX\$AVER TIP #2: UTILIZE HOME EQUITY LOANS VERSUS OTHER LOAN TYPES

The interest on most home mortgages is fully deductible. In addition, you can leverage the equity in your home via a home equity loan, use the funds for other purposes *and* still deduct the interest expense.

Example: You live in a home with a market value of \$150,000. Your outstanding loan balance is \$60,000. Benefit #1: The interest on the home loan of \$60,000 is tax deductible as an itemized deduction. Benefit #2: You can take out a home equity loan on the \$90,000 you own of your home (\$150,000 home value minus \$60,000 remaining mortgage). The interest on this new loan is generally tax deductible.

Cautions: There are upper limits to the loan interest deductibility for home equity loans and mortgages. But the deductible amount of interest could be impacted by falling home values. In addition, home equity loans use your home as collateral. If you default, you could lose your home.

TAX\$AVER TIP #3: SHIFT INCOME

In its effort to shift the tax burden to the more affluent, the tax code establishes tax brackets that increase as more income is earned. There are six brackets ranging from 10% to 35%. Once you reach the next threshold, each additional dollar you earn is taxed at the higher rate (this is called your marginal tax rate). Knowing your income relative to the next “jump” in tax bracket can be beneficial. Where possible, it might make sense to shift income from one year to the next or file separately versus jointly to stay in a lower tax rate bracket.

Some ideas:

- ✓ Defer a bonus until the following year.
- ✓ Defer invoices and work if self-employed.
- ✓ Use tax-exempt savings instruments if the interest income is taxed at a higher rate.
- ✓ Defer the wedding until the next calendar year.
- ✓ Conduct tax forecasts for different filing options.

TAX\$AVER TIP #4: SHIFT DEDUCTIONS/EXPENSES

Another common way to lower taxes is to shift controllable expenses into the year they will benefit you the most.

Example: Make a thirteenth house payment in a year with atypically high income. This will give you an additional amount of interest and property taxes to use as an itemized deduction. While this shift can only be done once, the impact on that year's taxes can be significant.

Other ideas:

- ✓ Time medical expenses in years that they may go over 7.5% of your income.
- ✓ Make higher charitable contributions in years they will benefit most.
- ✓ Pre-pay estimated state, city or county taxes.

TAX\$AVER TIP #5: EXPLORE TAX EXEMPT SAVINGS AND INVESTMENTS

Municipal bonds are the primary vehicle available to avoid paying federal taxes on the interest earned. In many cases state taxes too may be avoided if the bonds are issued from your state. It is important to calculate the after tax yield of other savings and investment vehicles and compare them to the traditionally lower rate of return on municipal bonds. Other tax exempt savings options are College Savings Plans (529s), Coverdell Education Savings Accounts and Roth IRAs.



TAX\$AVER TIP #6: PASS INCOME TO DEPENDENTS

Income earned by a child or dependent can be taxed at their rate versus your higher rate if handled correctly. This is especially useful if you are self-employed and you employ your child to do work for your business. You can also pass income to your children via a gift. But be careful, excess gift giving can be taxed.

Caution: There is a “kiddie tax” formula that is in place to ensure excess income is not being deferred to a child. Make sure earned income (wages) versus unearned income (interest) is clearly tracked.

Call for advice on whether gifting is a Tax\$aver technique for you.

TAX\$AVER TIP #7: NON-CASH CHARITABLE CONTRIBUTIONS

How many times have you donated clothing or furnishings without keeping track of the items given? This often overlooked itemized deduction is a great way to reduce your tax burden. Even the mileage to and from the charitable location is deductible.

Stock can make a better donation than donating cash. If done correctly, you can avoid paying a gain on appreciated stock, while taking full advantage of the increased market value of the stock as an itemized deduction!

Caution: The rules for deducting donations of vehicles to charities have changed. If the charity sells your vehicle without using or improving the vehicle, your deduction is limited to the gross proceeds from the sale not what could be a higher fair market value. In addition, the quality of donated property must be in good or better condition.

TAX\$AVER TIP #8: TAKE FULL ADVANTAGE OF TAX CREDITS

Some of the more common tax credits that can directly reduce your tax obligation are:

- ✓ Child Credit
- ✓ Child Care Credit
- ✓ Adoption Credit
- ✓ Earned Income Credit
- ✓ Disabled Credit
- ✓ Hope Credit
- ✓ Lifetime Learning Credit
- ✓ Qualified Retirement Savings Plan Credit

TAX\$AVER TIP #9: LEVERAGE SPECIAL TAX RATE ON CAPITAL GAINS AND DIVIDENDS

The federal tax rate on dividends and long term capital gains are 15% through 2010 (from 2008 - 2010 wage earners in the 10-15% tax bracket pay 0% capital gains tax). Former tax rates were as high as 20% on long term capital gains and 38.6% on dividends.

- ✓ Look into corporate dividend paying stocks to reduce taxes.
- ✓ Time the sale of stocks to get the lowest tax rate.
- ✓ Avoid matching investment losses that can be used to reduce taxes on your income up to 35% with lower taxed capital gains tax rates.

TAX\$AVER TIP #10: COMBINING BUSINESS AND VACATIONS

Expenses for trips taken primarily for business purposes can be deducted, even if some vacation time is spent while on the trip. Make sure the trip is primarily for business. Expenses that are clearly for vacation are not deductible.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.