Caution

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

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.

Consider donating appreciated stock versus donating cash. If done correctly, you can avoid paying tax on the stock gain, while taking full advantage of the increased market value of the stock as an itemized deduction!

Caution

The rules for deducting donations of vehicles and other property 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 and not what could be a higher fair market value. In addition, the quality of other donated property must be in good or better condition.

8: Take Full advantage of Tax Credits

Every year there are more credits added to the tax code and many that expire. Staying on top of this can mean more money in your pocket. Some of the more common are:

- Child Credit
- Child Care Credit
- Adoption Credit
- Earned Income Credit
- Disabled Credit
- Making Work Pay
- Lifetime Learning Credit
- Retirement Savings Credit
- America Opportunity Credit
- Energy Efficiency Credit(s)
- Foreign Tax

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 (wage earners in the 10-15% tax bracket pay 0% capital gains tax). In 2011 these rates could be as high as 20% on long-term capital gains and 39.6% on dividends.

Hints:

- Time the sale of stocks to get the lowest tax rate.
- Try to match investment losses against ordinary income whenever possible to take advantage of the tax rate difference versus capital gains tax rates.

10: Combine 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.

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TAX$AVERS

Tax savings tips to save $1,000'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 here are 10 Tax$aver tips to help reduce your tax burden.

TAX$AVERS Tips:

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

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

1: Maximize Tax Deferred Retirement Savings

Numerous retirement savings plans allow you to defer paying income taxes until funds are withdrawn. Primary examples are Individual Retirement Accounts (IRAs) and 401(k) or 403(b) retirement savings plans. The money you contribute this year reduces your taxable income and the income is not taxed until you withdraw the money during your retirement.

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$AVERS Tip: 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.

2: Utilize Home Equity Loans

The interest on most home mortgages is fully deductible. Because of this you can often leverage the equity in your home via a home equity loan and deduct the interest expense. This can be an effective way to move non-deductible interest, like credit card interest, to tax deductible interest. If you consider this option please note:

- ✓ There are upper limits to interest deductibility for home equity loans and mortgages.
- ✓ Home equity loans use your home as collateral. If you default, you could lose your home.
- ✓ Make sure any home equity loan value plus outstanding mortgage balance is well below the appraised value of your home.

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. Once you reach the next tax bracket, each additional dollar you earn is taxed at a 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, try to shift income from one year to the next or file separately versus jointly to stay in a lower tax rate bracket.

Hints:

- ✓ 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.
- ✓ Conduct tax forecasts for different filing options.

4: Shift Deductions/Expenses

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

Hints:

- ✓ 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.

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 rate of return on municipal bonds. Other tax-exempt savings options are College Savings Plans (529s), Coverdell Education Savings Accounts, and Roth retirement accounts.

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.