

# TAXGUIDE

## 23 tax tips for individuals



### One of the largest expenses you have is the income tax you pay

If you continually pay more than necessary, you diminish your ability to build your wealth to accomplish important financial goals.

The only effective way to cut your taxes is to do regular tax planning. Always consider the tax consequences of any transaction before the fact; seek professional assistance any time dollar amounts are significant.

**1 Review your deductions toward the end of each year.** If you're close to the cutoff point between itemizing or taking the standard deduction, consider the advantage of bunching your deductible expenses every other year. You can then alternate between itemizing one year and taking the standard deduction the next, saving tax dollars by doing so.

**2 Take advantage of the tax credits and deductions available for higher education expenses.** Requirements and restrictions are complex, so get the facts and guidance you need to obtain maximum savings.

**3 Be tax-wise if you borrow money.** Also, review and restructure your existing debt so the money you pay towards debt service is at the most favorable tax terms.

**4 If you're saving for a child's college education, do so in a tax-advantaged way.** Look at all the available options and choose what is likely to give you the most money for college at the least tax cost. Among the choices to investigate are Section 529 plans, education savings accounts, and education savings bonds.

**5 Don't lose your mortgage points deduction.** When you refinance a mortgage, you're required to deduct the points over the life of the loan. But if you refinance again or sell the home, you can write off the remaining undeducted amount in that year.

**6 Sell an option instead of the property.** If you are selling property but want no more income in the current year, consider selling an option to purchase. The amount you receive for the option will be taxable in the year the option is exercised rather than in the current year.

**7 Maximize dependency deductions.** If you are helping to support an elderly parent, your college-age child, or others, know the requirements that will give you a dependency exemption. Don't let poor planning or paying for the wrong expenses cost you a tax-cutting dependency deduction.

**8 Don't aggravate your tax bill with penalty charges.** If you are required to make estimated tax payments, be certain that you are paying the minimum required. In most cases, that's 100 percent of your prior year's tax liability.

**9 Find out what requirements you must meet to be able to sell your home without paying tax on up to \$500,000 of profit if you are married, \$250,000 if you're single.**

**10 Check your exposure to the alternative minimum tax (AMT).** This parallel tax system was created to keep wealthy taxpayers from avoiding taxes. With awareness and planning, you may be able to lessen the AMT's impact on you.

## Check into all the tax credits for which you might qualify.

**11 Consider tax-exempt investments as a means of cutting your income tax.** There is an easy way to compare the yield on tax-exempt investments (such as municipal bonds) with the after-tax yield from taxable investments. Subtract your top tax bracket from 100 and divide the tax-exempt interest rate by that number. The result is the equivalent taxable return.

**12 Take a tax deduction for bad debts.** If you lent money and it's beginning to look as though the loan is uncollectible, take steps to provide evidence of your attempts to collect. These steps will help substantiate a bad debt deduction on your tax return.

**13 Get an early refund for a disaster.** If your area is ever federally declared a disaster area as a result of a flood, tornado, hurricane, or the like, you may take the unreimbursed loss that year or on the prior year's tax return. Filing an amended return for the prior year could give you a refund to help pay expenses resulting from the disaster.

**14 Give appreciated property to charity rather than cash.** You'll generally get a charitable deduction for the property's market value without having to pay capital gains tax on the appreciation. Get details before you give, however, because other restrictions could apply.

**15 Check into all the tax credits for which you might qualify.** Because some tax credits are reduced or eliminated entirely once your income reaches certain limits, be aware of the phase-out income thresholds for the credits that affect you. With some minor adjustments to your income and deductions, you might be able to salvage all or part of a valuable credit.

**16 Make your retirement plan contributions as early in the year as possible to maximize your tax-deferred earnings.**

**17 If you're selling mutual fund shares, consider using the specific identification method, if you qualify, rather than the average cost method to determine your cost basis.** This may allow you to fine-tune your tax planning by squeezing some extra gain or loss out of the sale.

**18 If you plan to sell a piece of investment real estate and replace it with other investment property, you should look into a tax-deferred exchange.**

**19 Make maximum contributions to tax-favored retirement accounts.** Most retirement accounts give you the double benefit of a tax deduction for your contribution and tax-deferred growth within the account. Find the best retirement plan for your situation, and make the maximum allowable contribution each year.

**20 Take advantage of lower long-term capital gains tax rates.** You can cut your tax bill significantly by holding an appreciated investment long enough to qualify for long-term rather than short-term tax treatment.

**21 If your other accounts provide enough to support your retirement lifestyle, consider delaying withdrawals from your tax-deferred retirement accounts.** Waiting lets your money continue to grow tax-free. Just be sure to check with your tax advisor on distribution requirements. They vary depending on type of retirement account and current tax rules.

**22 Consider a Roth IRA if you qualify for one.** The beauty of a Roth is that your investment grows tax-free, and qualified withdrawals from a Roth will be completely tax-free.

**23 Rollover pension distributions.** If you receive a lump-sum distribution from a qualified retirement plan, consider deferring taxation on the distribution by rolling it into an IRA or other qualified plan within 60 days.

*The information in this brochure is of a general nature and should not be acted upon without further details and/or professional assistance. To identify and implement the tax strategies best suited to your situation, please contact us.*



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