Top 10 Tax Savings Tip

1. Tax Deferred Savings
2. Leverage Home Equity
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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Numerous retirement savings plans allow you to defer paying income taxes until funds are withdrawn.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), 401(k)s and 403 (b) retirement savings plane. The money you contributions 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 match your contributions in 401(k) and 403(b) plans.

Tax Savers Tip: Tax legislation raises the annual amount one may invest in IRA or 401K type plans each year. For instance the once static per person traditional IRA contribution was $2,000 and now is $5,500 with an additional $1,000 if you are over 50. Note

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:

a. There are upper limits to interest deductibility for home equity loans and mortgages.

b. Home equity Loans use your home as collateral. If you default you could lose your home.

c. Make sure any home equity loan value plus outstanding mortgage balance is well below the appraised value of your home.

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 brackets can be beneficial. When possible try to shift income from one year to the next or explore filing separately versus jointly to stay in a lower tax bracket.

Tax Saver Tips

A. Defer a bonus until the following year

B. Delay invoicing work, if self employed

C. Use tax exempt savings instruments if the interest income is taxed at a higher rate

D. Conduct tax forecasts for different filing options.

Noncash Charitable Contributions

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

Explore Tax Exempt Savings and Investments

Municipal bonds are the primary vehicle available to avoid paying federal taxes on investment interest. 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.

Shift Deductions and Expenses

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

Tax Savers Tips

A. Time medical expenses in years they may go over 10% of your income (7.5% if 65 or older)
B. Make higher charitable contributions in years they will benefit more
C. Pre-pay estimated city, state or county taxes

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. This is also beneficial for higher income tax payers.

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

Take full advantage of tax credits

Every year there are more tax 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 common ones are:

Child Credit

Adoption Credit

Earned Income Credit

Child Care Credit

Lifetime Learning Credit

American Opportunity Credit

Retirement Savings Credit

Energy Efficiency Credit

Leverage Special Tax Rate on Capital Gains and Dividends

The federal tax rate on dividends and long term capital gains are up to 20%

If Income tax bracket is	Your rate is
10-15%	0
25-35%	15%
39.6%	20%

Tax Saver Tip

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 differential.

Combine Business and Vacation

Expenses for trips taken primarily for Business 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.

Notes to Wayde

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Can you box stuff in red and somehow highlight as these are the most important part?