



## TAX SAVING STRATEGIES NEWSLETTER

September 2007 #152

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### SAVE MONEY BY SAVING TAXES—FOR INDIVIDUALS

Income taxes can easily eat up as much as half of a person's income. Yet people only become concerned about saving taxes when April 15<sup>th</sup> rolls around each year.

**The time to save income taxes is now, before the end of the year.** If you wait until you prepare your income tax returns you lose opportunities to save taxes. There are many tax saving strategies that you can use now, before the end of the year.

**How do you know if you can benefit from tax saving strategies?** You may benefit from tax planning—

- **If you are in business**
- **If you own investments** such as securities or real estate
- **If you anticipate an unusual financial or life event** such as selling your residence or divorce
- **If you have control over when you receive income or pay tax deductible expenses, or if you have control over how you receive income**

Tax planning can mean more dollars in your pocket, and less going to the Internal Revenue Service.

**How do you get started?** If tax planning is for you, there are two courses of action. You can do it yourself, or you can consult a tax professional. If you do it yourself, research the tax rules that relate to your issue and figure out if there is an approach that can save taxes. If you consult a tax professional, gather all of the facts before your appointment. It helps to do some research so you can help the tax professional help you. A tax professional will charge according to the complexity of the tax issue and how much time it takes. Supply him or her with all of the documents and information to minimize the cost and to get good advice.

There are many sources of tax information at your fingertips. There are legal books, tax books written for the layman as well as articles and other resources on the internet. Your approach will depend on how much money is involved and on how much time, effort, and money you want to spend. Some people have more time than money. Some people have more money than time. Find a solution which works for you.

**Save taxes by taking action now, not after the end of the year. If you fail to plan, the IRS has a plan for you, and the IRS plan will undoubtedly result in more taxes—not less.**

## Tax Saving Strategies

**Some basic strategies to saving taxes that may help you.** Keep in mind that tax rules are always changing. It is important to keep the big picture in mind, so **be mindful of:**

- Your adjusted gross income (AGI) for the current and the following year. Many tax benefits are tied to or limited by your AGI.
- The percentage of tax you pay on your taxable income. This helps you determine the tax you will pay on additional income or the value of tax deductions.
- If you use your credit card to pay for something tax deductible, you get the deduction in the year you make the charge, not when you pay the credit card bill.

If you fail to plan, the IRS has a plan for you, and the IRS plan will undoubtedly result in more taxes—not less.

**Beware of the Alternative Minimum Tax (AMT).** You should keep in mind that if you are subject to the AMT some of these tax saving

strategies may not work. So before you implement any of these strategies you should check out the impact of the AMT. See my newsletter “Dealing With The Alternative Minimum Tax—For Individuals,” September 2007 #153. This newsletter is available on my website at [www.ftompsoncpa.com](http://www.ftompsoncpa.com)

**Accelerate or defer the receipt of taxable income.** Accelerate income if your tax rate will be lower now than in the future or if you need to offset deductions. Defer income if your tax rate will remain the same or will be lower in the future or you will need to use deductions in the future.

**Accelerate or defer the payment of tax deductible expenses.**

- Bunch payments into one year so you can itemize in one year and use the standard deduction in the other year. Do this instead of using the standard deduction both years.
- Bunch payments into a year when you will not be subject to the phase out of itemized deductions due to AGI above your threshold amount. The threshold amount depends on your filing status.

**Cafeteria Plans**—Take advantage of employer provided employee benefits provided through cafeteria plans. They are not subject to income tax.

**Itemized Deductions**—if you itemize deductions and want to reduce taxable income:

- **Medical expenses**—bunch payments into a year in which they are greater than the 7½% floor. You can only deduct medical expenses that are greater than 7½% of AGI.
- **State income taxes and property taxes**—prepay if you are not subject to the alternative minimum tax.
- **Charitable contributions**—consider making before the end of the year. You can contribute cash or property. Clean out your closet or garage.

**Rental properties**—if you want to decrease taxable income, then prepay property taxes, pay expenses this year instead of next year, or purchase supplies before the end of the year instead of waiting until next year.

## Tax Saving Strategies

### Unincorporated Businesses

#### Investment planning

Time the sale of assets so that gains offset losses. Losses from investments can only offset gains from investments and up to \$3,000 of other income.

Unused losses are only carried forward.

- To avoid capital gains give appreciated property to children or grandchildren if they are in lower tax brackets.
- Gifts of appreciated property avoid recognition of capital gains and give you an itemized deduction for the fair market value of the property.
- If you want to get rid of that investment property, consider a like-kind exchange instead of selling it. You only pay tax if you sell. There is no tax if you exchange it. Also, there is no tax if you borrow on the exchanged property to take cash out.

#### Retirement plans

- Contribute to your 401(k)
- Contribute to an Individual Retirement Account (IRA)
- Contribute to a Roth IRA

#### Put money in a **Qualified Tuition**

**Program** (also known as a section 529 plan) to fund education. Contributions are not tax deductible, but if conditions are met earnings on the funds are not taxable if the money is used to pay for qualified higher education expenses.

**Sole Proprietorship**—Remember that if you reduce your self employment income you are saving self-employment tax (approximately 15%) plus income tax.

#### • Reduce your revenue

- If on the cash method of accounting, don't send out bills or receive cash until next year.
- If on the accrual basis, put off completing work so that invoices are not sent out until the following year.

#### • Accelerate expenses

- If on the cash basis, pay expenses this year.
- If on the accrual basis, incur expenses this year.
- Purchase supplies before the end of the year.
- Purchase equipment before the end of the year.

#### • Employ your children in the business

- Wages of children under the age of 18 are not subject to social security tax. This will shift income to children who may be in a lower tax bracket.

#### • Maximize medical expense deductions

- Employ your spouse and pay for all employee health insurance. Set up a medical reimbursement plan. This will result in the medical expenses being fully deductible as a business expense instead of as an itemized deduction. A business expense reduces social security taxes in addition to income taxes.

This information is provided with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Because tax laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research before acting on the information contained in this newsletter.

This information is not intended or written to be used, and it cannot be used by a taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. I am required by Internal Revenue Service Circular 230 to inform you that, unless otherwise expressly indicated, any federal tax advice contained in this communication, including attachments and enclosures, is not intended or written to be used, and may not be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

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### Something to Think About

**off the mark**.com

by Mark Parisi



*Ambition in America is still rewarded . . . with high taxes.*

*America is the land of opportunity. Everybody can become a taxpayer.*

*It's hard to believe America was founded to avoid high taxation.*

*Congress thinks it's a lot easier to trim the taxpayers than expenses.*

*The attitude of Congress toward hidden taxes is not to do away with them, but to hide them better.*

*If Congress can pay farmers not to raise crops, why can't we pay Congress not to raise taxes?*