

T A X T I P S
for a better life!

25 TAX SAVING TIPS



25 Ways to Save Taxes

Taxes are, unfortunately, a part of every financial decision. Like it or not, Uncle Sam's is ready with outstretched fingers to take his share of your hard earned dollar.

These suggestions for savings cover various stages of our life beginning during our education years, progressing into our working world, family life and onwards.

Education

1. Withdraw penalty-free from your traditional IRA to pay higher education expenses for yourself, your children, or grandchildren. You'll have to pay tax on the withdrawals at your regular income tax rate, but no early withdrawal penalty will apply.
2. File a tax return every year you are due a refund. If your earnings are so low that you are not required to file, you'll need to file a return in order to claim a refund of withheld income taxes. If you wait more than two years to file, the IRS is not required to issue you a check.
3. Keep track of the cost of books and equipment you purchased while in school. When you begin working, you may be able to depreciate those items that you use for your career.

The Working World

4. Start investing in 401(k)s, stock purchase plans, employee stock options, and other tax-advantaged accounts as soon as possible. Small contributions made at an early age are much more valuable than large contributions made a few years before retirement.
5. Learn about your company's fringe benefits. Large employers often have tuition assistance plans, free employee counseling, mass transit commut-

ing assistance, and other tax-free perks that might not be common knowledge around the water cooler. Visit human resources for a chat about what your company offers, or check out your company's website.

6. Consider paying your own disability premiums. If you become disabled, your disability benefits will be tax-free. If your employer pays your premiums as a tax-free perk, disability benefits will be taxable when received.
7. Only borrow from your 401(k) in an emergency. You have the option, if you really need the money, to borrow these funds without taxes or penalties. However, the interest you pay on the loan won't be tax deductible, and you will miss out on the capital appreciation of the money if you'd left it invested it for growth in the plan.

Family Life

8. Set aside money in your employer's dependent care plan. Although tax-free reimbursements by your employer reduce the child and dependent care credit you are allowed to take, they are still a good deal for taxpayers in the 20 percent tax bracket and above.
9. Claim the child tax credit. If your income is under \$75,000 (\$110,000 for joint filers) you are eligible to receive up to \$1,000 for any child, stepchild, grandchild, adopted child, or foster child in your care.
10. Claim the adoption tax credit when you adopt a child, if your income is under \$210,810. You can claim a tax credit of up to \$11,390 for adoption fees, attorney services, court costs, and other expenses in the year the adoption is final.
11. If necessary, withdraw from your traditional IRA to meet medical emergencies, for education, or to buy a home. You can withdraw money from your IRA penalty-free (but not tax-free) before age 59-1/2 to pay for medical expenses that exceed 7-1/2 percent of your income, to pay for health insurance premiums if you are unemployed, to pay for higher education expenses, or to pay up to \$10,000 of first-time home-buying expenses. If you

desperately need money for one of these qualified expenses, your IRA is a place to start.

Divorce

12. Before your divorce, find and copy all business tax returns for your spouse's corporation or partnership. The IRS will not give you copies of your spouse's business returns if you did not sign them.
13. When in doubt about how to file, consider a separate return. This ensures that you will not be held liable for the actions of your spouse, if she omits income or overstates expenses. But even if you file a joint return, the innocent spouse provisions of the tax law will protect you if you weren't aware of the misstatements on the joint return.
14. Consider the tax implications of support. Child support is not deductible, but alimony is. Calling child support "family support" makes it fully taxable to the recipient and deductible to the payer, just like alimony. Do not characterize the payments as "family support" unless you will end up with more money after taxes are paid.
15. Follow the **5Ds** for alimony deductibility. If you want a deduction for the alimony you pay (it will be taxed to your ex), it must be paid in **dollars**, under a **decree** or written agreement, and cease on your ex's **death**. After the divorce, you must maintain your **distance** (you can't live with your ex), and the payments can't be **designated** as non-taxable or child support.
16. Keep a calendar of the days (and nights) your child spends at your house and at your ex-spouse's. This will provide documentation for the courts and for the IRS (for dependency exemptions and head of household filing status), and also help you avoid disagreements with your ex-spouse about what really happened on a particular day.

Business Ownership

17. Deduct 100 percent of the health insurance premiums for your entire family. If you employ your spouse in your business, you may cover him and deduct the entire premium as an employee benefit.
18. Deduct an office in your home. If you regularly and exclusively use part of your home to perform administrative or managerial activities for your business, you can claim a home office deduction for utilities, rent or mortgage interest, depreciation, phone use, cleaning, and the like. You can still take this deduction even if you provide products or services at other locations.
19. Read more. Subscriptions, books, and other materials related to your field are tax-deductible items. Ditto conferences, seminars, and courses related to your work.
20. Use consulting agreements when you buy or sell a business. For example, if the buyer hires the seller on an exclusive contract, the seller will be able to set up a Keogh plan, as well as deduct ordinary and necessary business expenses. The buyer will get a current tax deduction for salary paid to the seller.

Home Ownership and Investing

21. Deduct personal bad debts. If your best friend borrows \$10,000 and then skips town, you can deduct this non-business bad debt as a short-term capital loss on your tax return.
22. Don't fall for tax evasion schemes such as revocable foreign trusts or secret offshore bank accounts. There are plenty of legitimate ways to reduce your income taxes, so don't fall for shady deals sold in the backs of magazines or over the Internet.
23. Own your own home. Home ownership is one of the last tax shelters available to the middle class. Mortgage interest and property tax deductions will save you taxes, and saving to own a home is a wonderful use for your money after you have contributed the maximum to tax-advantaged retirement plans.

24. Deduct points paid on your home loan. Points paid when you acquire your home are deductible in that year. Points paid to refinance a loan must be written off over the length of the loan (1/30 each year on a 30 year loan). If you refinance again, don't forget to write off the remaining unamortized points in the year you refinance.
25. Contribute to your IRA early in the year. Although you have until April 15 of the following year to contribute, your money will have 15-1/2 more months to grow if you contribute on January 1 of the previous year. Over a lifetime, this additional compounding will greatly increase your retirement nest egg.

These are just some examples of ways to help save money on the taxes you pay. For more information and a free consultation, call William Matthews CPA, SC. or [Click Here](#)