

# TAX TIPS

2008 TAX TIPS NEWSLETTER

## Tax Tips 2008 Tips to Reduce Your Taxes

Remember that your obligation is to pay your fair share of taxes, but NOT A PENNY MORE. By understanding the tax laws you can make sure your obligation takes full advantage of tax savings opportunities. The tips discussed here offer numerous ideas to reduce the risk of paying too much.

### Tips to Reduce Your Taxable Income in 2008

**Tip 1** **Defer Income in Retirement Accounts.** There are numerous savings plans that allow you to contribute current income toward your retirement. This income is not taxed during 2008, only when you withdraw the money from your retirement account in a later year. The most common plans are 401(k), 403(b) or 457 plans. These employer sponsored plans often have the added bonus of employer matching contributions. Many IRA plans also offer this tax-deferred status as well.



**Tip 2** **Defer Income/Accelerate Expenses.** While this is not always possible, sometimes it is. Remember your tax return is on a “cash basis”. If you did not effectively receive the income in 2008, you can defer it into 2009. Or if you write the check this year for the deductible expense on December 31<sup>st</sup> you can deduct it. This knowledge is especially helpful for self-employed individuals. Changing the timing of your billing or receipt of income (like a bonus check) can make a big difference in your taxable income.

**Tip 3** **Effectively Use Capital Losses.** Each year you can write off up to \$3,000 in excess capital losses (i.e. stock loss) as an offset to income. Capital losses are first offset against capital gains, but excess losses up to the \$3,000 limit can eliminate high tax rate ordinary income. Better still, if you have a capital gain from a property you held for less than one year, you could offset this gain from an investment loss up to the total gain amount! The tax benefit is often much lower if your capital loss is used to offset long-term capital gains.

**Tip 4** **Open a Health Savings Account (HSA).** This relatively new health insurance benefit allows you to set up an IRA-like account to pay for medical and

dental expenses. Any funds at the end of the year that are not used to pay for qualified medical expenses can be invested and carried over into future years. To qualify for an HSA you must be in a high deductible health insurance program. Other limitations apply.

**Tip 5** **Use Employer Spending Accounts.** Employers often offer you the ability to pay for health care and dependant care expenses through spending accounts. The benefit of these accounts is you can pay for qualified day care and medical expenses using pre-tax dollars. You sign up for this benefit with your employer each year. The income you set aside in these accounts reduces your income, but the funds must be used each year or you will lose the unspent money.



## Quick Tips

**Tip 1** If you have not filed your 2007 tax return, remember you have until October 15, 2008 to file and still receive your Federal tax stimulus payment. You may be eligible for the refund even if you were not required to file a 2007 tax return.

**Tip 2** Small business owners have a special bonus depreciation option for new assets purchased in 2008. This added bonus can allow you flexibility in planning for your 2008 tax obligation.

## Tips to Save for College

The tax code is loaded with tax saving opportunities to pay for future education expenses. While some are immediate, others, like those noted here, help you save for future educational costs and lower your taxes at the same time.

**Tip 1 Open a College Savings Plan.** These tax-favored plans, referred to as Qualified Tuition Programs (QTPs) and Prepaid Tuition Plans offer a tax benefit on earnings put aside for college. With these plans you put after-tax money away to fund someone's education. As long as the funds are used to pay for qualified education expenses any earnings on the funds are tax-free. But be careful, as money used for ineligible expenses are subject to federal taxes plus a 10% penalty. The strength of these programs is that anyone can contribute to the plan and the annual contribution limits are set at the annual gift limit (currently \$12,000 per year).

**Tip 2 Consider Coverdell ESAs.** These accounts behave like an IRA but the funds are used to pay for educational expenses. The funds accumulate tax-free as long as they are used for education. You may put aside \$2,000 per year for each qualified designated beneficiary

(student). Contributions can be made by April, 15th of the following year for a beneficiary under age 18. Funds must be used or transferred to another qualified beneficiary at age 30.

**Tip 3 Use Savings Bonds.** For an easy and safe way to sock away money for future education expenses look to qualified U.S. Savings Bonds. The qualified savings bonds are Series EE (the fixed-rate variety) and Series I (indexed to inflation). Federal taxes are deferred until you cash the bond, but if you redeem them to pay for higher-education expenses, the earnings (bond interest) may also be tax-free.

**Tip 4 IRA Distribution (Penalty-Free).** You may take early distributions from your IRA to help pay qualified educational expenses for yourself, your wife, child, or grandchild. While you will need to pay tax on the income (not if from a qualified Roth IRA), you will not be subject to the 10% early withdrawal penalty.

The tax code in these areas can be complex. So as you try to maximize your college tax saving strategy it is a good idea to review what provisions are right for you.

## Now You See It. Now You Don't. Key tax breaks extended once again?

There are a number of key tax provisions that expired in 2005, were extended thru 2007, and expired a second time only to possibly be extended again. Since, as of this printing, the status is unknown it is prudent to STILL save your receipts! Some of the key provisions are:

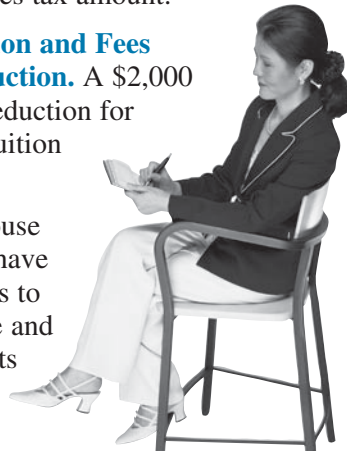
**1 Educators expense.** Qualified educators can deduct up to \$250 of qualified un-reimbursed classroom expenses. You can take the deduction even if you do not itemize. This benefit is for K-12 teachers, instructors, counselors, principals or aides working at least 900 hours during the school year.

**2 Sales Tax.** You may deduct EITHER state and local general sales tax OR state income taxes as an

itemized deduction on your federal return. So if you made large purchases during the year save the receipts. If no receipts are available you may always use the sales tax table provided by the IRS to determine the sales tax amount.

**3 Tuition and Fees Deduction.** A \$2,000 to \$4,000 deduction for qualifying tuition expenses.

Both the House and Senate have pending bills to extend these and other benefits in 2008 so stay tuned.



## Mortgage Debt Forgiveness

Normally, debt forgiveness results in taxable income. But you may qualify to exclude from tax up to \$2 million (\$1 million if married filing separate) of debt forgiven on your principal residence from 2007 - 2009. If the principal amount you owe on your mortgage was reduced through mortgage restructuring, or if your mortgage debt was forgiven in connection with a foreclosure, you may qualify for this relief. The debt must have been used to buy, build or substantially improve your principal residence and be secured by that residence. Debt stemming from a refinance of qualifying debt is also eligible, but only up to the amount of the pre-refinance mortgage principal.

Debt forgiven on second homes, rental property, business property, credit cards or car loans does not qualify.

## Timely IRA Withdrawals

With the tax-deferred benefits of an IRA it is often wise to let your IRA savings grow as long as possible before withdrawing funds. For fund withdrawals, there are two key age rules.

- At age 59½ or older you can withdraw funds from your IRA without a 10% penalty.\* You can withdraw as much as you want and pay ordinary income tax on the distribution(s).
- At age 70½ you must begin your IRS mandated minimum withdrawals. The IRS has established life expectancy tables to determine the amount you need to withdraw each year. There can be a substantial tax on unwithdrawn minimum funds so plan accordingly.

*\*Hint: Though not often advised, there are ways to take penalty-free withdrawals from your IRA before age 59½ in specific situations.*

*This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.*