Account Sense PLLC
Certified Public Accountants

18 ways to cut your taxes

At every stage of your life, there are moves you can make that will minimize your taxes and make it easier to achieve financial security. Here are the best of those moves.

Youth

1 **With your first job,** take advantage of the tax break for contributing to a tax-advantaged retirement plan. You could cut your current tax bill and get a head start on building a sizable retirement nest egg.

2 **Be sure to fill out your Form W-4 correctly.** This is the form that tells your employer how much income tax to withhold from your paycheck. Don't overpay your taxes because you like getting a tax refund. Adjusting your withholding could put extra money in each paycheck. Invest this extra money and let it grow.

3 **Chances are you'll claim the standard deduction** on your tax return. But don't overlook deductions that you can take in addition to the standard deduction. For example, you may be able to deduct moving expenses, student loan interest, or health savings account contributions.

Family Time

4 **Plan your itemized deductions.** Homeownership means mortgage interest and real estate taxes, and usually this means you'll have enough tax deductions to itemize on your return. If you don't have enough deductions to itemize, consider bunching certain deductions into every other year to increase your tax savings.

5 **If you work and pay for child care,** you may be eligible for the child care credit. Also, your employer may allow you to set aside part of your salary tax-free to pay for child care expenses. You may even be eligible for the earned income credit. And don't overlook the child tax credit for children under age 17.

6 **If education expenses are in your future,** there are many tax-smart ways both to build a college fund and to pay for education expenses. Each option has its own restrictions and limitations, so deciding which to use requires careful planning. Get the details you need to make the best choices for your particular situation.

7 **Another tax-cutting strategy** is to hire your child to work in the family business. The business can take a deduction for the wages paid, while the child often pays little or no taxes on his or her earnings. It must be a real job, though, and the wages you pay your child must be reasonable for the services performed.

8 **If you provide over half the support of your parent** and meet certain other requirements, you may be eligible to claim a dependency exemption. If you're single and supporting your parent, you may qualify for head of household filing status even if your parent doesn't live with you.

Maturity

9 **Invest to take advantage of lower long-term capital gain 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 capital gain tax treatment.

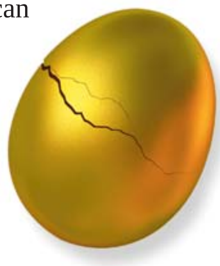
Maturity (continued)

10 Plan your capital gain transactions. If you're selling securities and have more than one lot of the same stock, you may save taxes by specifically identifying the stock you're selling and choosing the block of stock with the highest tax basis (cost).

11 Consider tax-exempt investments as a means of cutting your income tax. Be sure to compare the yield on tax-exempt investments with taxable alternatives.

12 Maximize retirement plan contributions during your highest-earning years. Employer matches, deductible contributions, and tax-deferred growth are good reasons to deposit all you can afford in your retirement accounts.

13 Postpone taxes by swapping investment or business property instead of selling it. If, instead of selling your property, you exchange it for "like-kind" property in a "tax-deferred" exchange, you can delay the tax until you sell the replacement property. An exchange can be a good way to trade up to more valuable property without creating a current tax bill.



This transaction requires good legal and accounting help, but on a highly appreciated asset the tax savings on the deferral can be significant.

14 If you borrow money, try to structure the loan so that the interest will be deductible. Business interest is fully deductible. Home mortgage and investment interest are deductible within limits. Personal interest is not deductible.

Consider the suggestions in this brochure. Then contact our office if you have questions, would like more information, or would like to schedule a planning session to discuss the tax-cutting options most suited to your particular situation. We look forward to serving you.

Retirement

15 When you retire, you may have to decide what to do with the payout from your retirement plan – specifically, whether you want to roll it over into an IRA or select some other option. This is a complex and important financial decision that you should not make without professional guidance.

16 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 not to wait too long. You may be required to take minimum distributions at a certain age or face penalty charges.

17 Consider downsizing. Selling your home can free up equity that you can use to purchase other investments with higher returns. If you qualify, you can exclude from taxation up to $250,000 ($500,000 for joint filers) of the gain from your home sale.

If you don't want to sell your home, you may be able to use a reverse mortgage to turn the equity in your home into nontaxable retirement income. Essentially, a reverse mortgage is a loan where you borrow against your home in installments. Each month you receive a payment representing loan proceeds, and the loan gets bigger instead of smaller – a "reverse mortgage."

18 No matter how much Congress changes the estate tax rules, it's still important to have an estate plan in place. A plan can cut taxes and administrative costs, and it allows you to dispose of your estate as you see fit.

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5101 W. Clearwater Avenue • Kennewick, WA 99336
(509) 591-0105 • FAX (509) 591-0115
info@accountsense.net • www.accountsense.net