Tax Tips for Finance

▼ Tax Saving Techniques

Following are some generally recognized financial planning tools that may help you reduce your tax bill.

Charitable Giving - Instead of selling your appreciated long-term securities, donate the stock instead and avoid paying tax on the unrealized gain while still getting a charitable tax deduction for the full fair market value.

Health Savings Accounts (HSAs) - If you have a high deductible medical plan you can open an HSA and make tax deductible contributions to your account to pay for medical expenses. Unlike flexible spending arrangements (FSAs), the contributions can carry over for medical expenses in future years.

ROTH IRAs - Contributions to a ROTH IRA are not tax deductible but the qualified distributions, including earnings are tax-free.

Municipal Bonds - Interest earned on these types of investments is tax-exempt.

Own a home - most of the cost of this type of investment is financed and the interest (on mortgages up to $1,000,000) is tax deductible. When the property is sold, individuals may exclude up to $250,000 ($500,000 if married jointly) of the gain.

Retirement Plans - Participate in your employer sponsored retirement plan, especially if there is a matching component. You will receive a current tax deduction and the tax-deferred compounding can add up to a large retirement savings.

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▼ Deducting Mortgage Interest

If you own a home, and you itemize your deductions on Schedule A, you can claim a deduction for the interest paid. To be deductible, the interest you pay must be on a loan secured by your main home or a second home (including a second home that is also rented out for part of the year, so long as the personal use requirement is met). The loan can be a first or second mortgage, a home improvement loan, or a home equity loan. To be deductible, the loan must be secured by your home but the proceeds can be used for other than home improvements. You can refinance and use the proceeds to pay off credit card debt, go on vacation or buy a car and the interest will remain deductible. There are other financial reasons for not wanting to do this but it will not disqualify the deduction.

The interest deduction for home acquisition debt (that is, a loan taken out after October 13, 1987 to buy, build, or substantially improve a qualified home) is limited to debt of $1 million ($500,000 if married filing separately). The interest deduction from your home equity loan is also not unlimited. You can generally deduct interest you pay on the

first $100,000 of a home equity loan. Debt which you incurred to buy, build or substantially improve your home that is in excess of the $1 million home acquisition debt limit may also qualify as home equity debt.

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In addition to the deduction for mortgage interest, points paid on the original purchase of your residence are also generally deductible. Taxpayers who are required to pay mortgage insurance premiums may also be able to deduct this amount subject to certain income limits. For more information about the mortgage interest deduction, see IRS Publication 936.

▼ Capital Gains and Losses

Almost everything you own and use for personal purposes, pleasure or investment is a capital asset. The IRS says when you sell a capital asset, such as stocks, the difference between the amount you sell it for and your basis, which is usually what you paid for it, is a capital gain or a capital loss. While you must report all capital gains, you may deduct only your capital losses on investment property, not personal property.

While you must report all capital gains, you may deduct only your capital losses on investment property, not personal property. A “paper loss” — a drop in an investment's value below its purchase price — does not qualify for the deduction. The loss must be realized through the capital asset's sale or exchange.

Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term. For more information on the tax rates, refer to IRS Publication 544, Sales and Other Dispositions of Assets. If your capital losses exceed your capital gains, the excess is subtracted from other income on your tax return, up to an annual limit of $3,000 ($1,500 if you are married filing separately). Unused capital losses can be carried over indefinitely to future years to net against capital gains, however the annual limit still applies.

Capital gains and losses are reported on Form 8949, *Sales and Other Dispositions of Capital Assets*, summarized on Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040. Accounting and planning for the sale and purchase of capital assets is usually a very complicated matter, so please contact us so that you may receive the professional advice you deserve.

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▼ Coverdell Savings Accounts

A Coverdell Education Savings Account (ESA) is a savings account created as an incentive to help parents and students save for education expenses.

The total contributions for the beneficiary (who is under age 18 or is a special needs beneficiary) of this account in any year cannot be more than $2,000, no matter how many accounts have been established. The beneficiary will not owe tax on the distributions if, for a year, the distributions from an account are not more than a beneficiary's qualified education expenses at an eligible education institution. This benefit applies to higher education expenses as well as to elementary and secondary education expenses.

Generally, any individual (including the beneficiary) can contribute to a Coverdell ESA if the individual's modified adjusted gross (MAGI) income is less than an annual, constantly changing maximum. Usually, MAGI for the purpose of determining your maximum contribution limit is the adjusted gross income (AGI) shown on your tax return increased by the following exclusion from your income: foreign earned income of U.S. citizens or residents living abroad, housing costs of U.S. citizens or residents living abroad, and income from sources within Puerto Rico or American Samoa. Contributions to a Coverdell ESA may be made until the due date of the contributor's return, without extensions.

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▼ IRA Contributions

One popular tax savings outlet available to taxpayers today is the Indivdual Retirement Account, more commonly referred to as an IRA. There are several options you have when deciding which type of IRA account to enter into. You may be able to take a tax deduction for the contributions to a traditional IRA, depending on whether you â€” or your spouse, if filing jointly â€” are covered by an employer's pension plan and how much total income you have. Conversely, you cannot deduct Roth IRA contributions, but the earnings on a Roth IRA may be tax-free if you meet the conditions for a qualified distribution.

Generally, you can contribute a percentage of your earnings for the current year or a larger, â€œcatch-upâ€• if you are age 50 or older. You can fund a traditional IRA, a Roth IRA (if you qualify), or both, but your total contributions cannot be more than these annual amounts (currently $5,500 for 2013, or $6,500 if you are age 50 or older).

You can file your tax return claiming a traditional IRA deduction before the contribution is actually made. However, the contribution must be made by the due date of your return, not including extensions. If you haven't contributed funds to an Individual Retirement Account (IRA) for last tax year, or if you've put in less than the maximum allowed, you still have time to do so. You can contribute to either a traditional or Roth IRA until the April 15 due date for filing your tax return for last year, not including extensions.

Be sure to tell the IRA trustee that the contribution is for last year. Otherwise, the trustee may report the contribution as being for this year, when they get your funds.

If you report a contribution to a traditional IRA on your return, but fail to contribute by the deadline, you must file an amended tax return by using Form 1040X, Amended U.S. Individual Income Tax Return. You must add the amount you deducted to your income on the amended return and pay the additional tax accordingly.

If you haven't contributed funds to an Individual Retirement Arrangement (IRA) for last tax year, or if you've put in less than the maximum allowed, you still have time to do so. You can contribute to either a traditional or Roth IRA until the April 15 due date for filing your tax return for last year, not including extensions.

▼ ROTH IRA Contributions

Confused about whether you can contribute to a Roth IRA? The IRS suggests checking these simple rules:

1. **Income** To contribute to a Roth IRA, you must have compensation (e.g., wages, salary, tips, professional fees, bonuses). Your modified adjusted gross income must be less than:
   - $188,000 — Married Filing Jointly.
   - $10,000 — Married Filing Separately (and you lived with your spouse at any time during the year).
   - $127,000 — Single, Head of Household, or Married Filing Separately (and you did not live with your spouse during the year).
2. **Age** There is no age limitation for Roth IRA contributions. Unlike traditional IRAs, you can be any age and still qualify to contribute to a Roth IRA.
3. **Contribution Limits** In general, if your only IRA is a Roth IRA, the maximum current year contribution limit is the lesser of your taxable compensation or $5,500 ($6,500 for those age 50 or over). The maximum contribution limit phases out if your modified adjusted gross income is within these limits:
   - $178,000-$188,000 — Married Filing Jointly or Qualifying widow(er)
   - $0-$10,000 — Married Filing Separately (and you lived with your spouse at any time during the year)
   - $112,000-$127,000 — Single, Head of Household, or Married Filing Separately (and you did not live with your spouse)
4. **Contributions to Spousal Roth IRA** You can make contributions to a Roth IRA for your spouse provided you meet the income requirements.

* Note - threashhold amounts listed above are for tax year 2013.