

2011 TAX TIPS

Take advantage of the top ten tips for maximizing your deductions.

1. The best income tax tip for most people is to maximize your 401(k) deductions. The deductions lower your taxable income and all earnings are tax-deferred until distributions are received after your retirement. If your employer offers a matching contribution, you have an immediate tax-deferred return on investment as well as a reduction of your wages on your W-2. Another benefit to consider is that any money in your 401(k) account is protected by law against creditors. So if you are ever hit by a lawsuit or have to file bankruptcy, your 401(k) money is safe. CAUTION: IRAs do not have the same protection against creditors that 401(k) plans have.
2. Convert non-deductible interest expense such as interest on credit cards and automobile loans into deductible home mortgage interest. You can deduct the interest on a home equity loan or line of credit on Schedule A of your 1040, and the interest on your home equity loan is deductible no matter how you used the loan money. One item to note is that if your home equity loan is over \$100,000, the deductible interest expense is limited to the interest on the first \$100,000 of your loan. CAUTION: Consider the loan fees and compare interest rates when deciding if it makes sense to convert non-deductible loans into deductible home equity loans.
3. Consider a qualified state tuition program. www.savingforcollege.com has a great analysis of all the different states that offer qualified tuition programs. States such as New Hampshire and Utah allow residents and nonresidents alike to participate in their program and attend college anywhere in the United States. The tax advantage is that the investment grows tax-deferred until the child goes to college and the child will usually be in the lowest tax bracket when income on the accumulated earnings does have to be recognized upon distribution of the earnings to pay for college. Qualified state tuition programs are great for high-income taxpayers and people who want to invest large amounts for their child or grandchild's education. Some states also offer tax breaks for residents of their state. Some states do not have very good qualified tuition programs, so check out your state's program at savingforcollege.com, then check out other states programs that allow for nonresident participation.
4. Donate stock instead of cash to your favorite charity. If you hold publicly traded stock that has gone up in value, you can get a charitable deduction for the full value of the stock and avoid paying any capital gain tax. EXAMPLE: You donate 100 shares of Company X that you purchased two years ago for a total of \$3,000 but which had a value of \$13,000 on the day the donation was made. By donating the stock directly to the charity, you get a deduction of \$13,000 and you avoid paying tax on the \$10,000 capital gain you would have recognized if you had sold the stock. CAUTION: You must give the stock directly to the charity. Don't sell the stock and give the money to the charity.

5. Deduct the loan interest on your RV, camper, or even your boat. You are allowed to deduct mortgage interest on your primary residence and one other residence. The definition of what constitutes a residence is very broad and includes RV's, campers, and boats as long as they have cooking, toilet, and sleeping facilities.
6. Take advantage of your company's cafeteria plan and other tax-free benefits. For example, your company's dependent care program is a great deal if you are in the 27% tax bracket or higher. The dependent care credit only gives you a tax credit of 20% of your child-care expenses, but through your company's cafeteria plan you will be getting a tax benefit equal to the tax bracket you are in. So if you are in the 30% tax bracket, you will be getting a tax benefit of 30% as well as a reduction of your state income tax.

Another example is medical expenses. Medical expenses can rarely be taken on Schedule A due to the 7.5% of AGI limitation, but through your company's cafeteria plan, you can fully deduct your medical expenses from your W-2 wages. The only catch is that if your unreimbursed medical expenses for the year are less than what you set aside from your wages, the difference is forfeited. The definition of what constitutes qualified medical expenses is very broad so make sure to visit your dentist, optometrist, acupuncturist, chiropractor, etc. in December if you haven't used up all of your current year medical expense contributions.

7. Invest in growth stocks and growth mutual funds. The fewer times you sell and reinvest, the more money you can keep invested in the market instead of having to use part of your gains to pay taxes. Also, long-term capital gains are taxed at favorable rates, while dividends, interest, and short-term capital gains are taxed at your highest rate.
8. Make sure that your tax return numbers match the 1099s you receive from your broker, employer, or investment company. **EXAMPLE:** Your 1099 from your broker shows \$55,342 in gross proceeds from stock sales. If the only stock you sold during the year was through your broker, the gross proceeds shown on Schedule D of your tax return should be \$55,342.
9. If you are starting up a business, an LLC may be the right choice for you. LLCs offer the advantages of limited liability and partnership taxation. There are still good reasons for choosing to operate your business as a C corporation, S corporation, or sole proprietorship, but LLCs are often the best choice.
10. FICA percentage has been reduced for tax year 2011. Even though there is no longer the Making Work Pay credit FICA has been reduced from 6.2% to 4.2%. This means you will have more take home pay in your paycheck. A person making \$50,000.00 annually will see a \$1000.00 savings in taxes paid, which based on getting paid every 2 weeks, will give you \$42.00 more take home pay.