



## **GIVE YOURSELF A GIFT FOR THE NEW YEAR**

**You still have time before January 1, to make some important moves to cut this year's income taxes. Take a few minutes from holiday merrymaking and get these last-minute tax moves done.**

***REMEMBER WE ARE NOT TAX ACCOUNTANTS AND THE INFORMATION BELOW IS GENERALLY ACCEPTED, BUT IT MAY NOT APPLY TO YOUR SPECIFIC SITUATION. YOU SHOULD ALWAYS CONSULT YOUR TAX ACCOUNTANT BEFORE TAKING ANY ACTIONS.***

### **Things That You Can Do Now To Cut Your 2007 Tax Liability**

#### **1. Charitable donations.**

If you make cash contribute make sure that you have a receipt from the organizations, and you need acceptable bank records.. If you don't have the cash, use a credit card before December 31.

**Get the most out of non-cash charitable contributions.** Give your old clothes, furniture and equipment to your church, synagogue, Salvation Army or Goodwill before Jan. 1, 2008, and take a deduction for the fair market value. Make sure you get a receipt: No receipt, means no deduction. In addition, with clothing and household items, the donation must be in good condition. Contributions of clothes or household over \$500 or more require an appraisal.

#### **2. If you have a flexible spending account at work, and you don't use the dollars you contributed to a flex plan, by March 15, 2008, you lose the tax deferment. Your employer can give you a debit card for your FSA spending.**

You can even pay for nonprescription drugs through an FSA. That eliminates a whole lot of paperwork.

- 3. Mortgage interest.** Make your January mortgage payment Dec. 31. Send in a check or pay it online. Remember to add the interest you paid to what your bank reports on its Form 1098. Your bank will get your payment in 2008 and won't report it for 2007, but it still counts for 2007.
- 4. Real-estate taxes.** If you pay your own real-estate taxes, make any payments due in the beginning of 2008 by Dec. 31. A friendly warning: Taxes aren't allowed as a deduction under the alternative-minimum-tax computation. If you expect to get hit by the AMT, don't prepay. (We'll discuss this later)

**5. Medical and miscellaneous deductions.**

**Bunch your medical expenses if you can.** Medical expenses itemized deductions have to be in excess of 7.5% of your adjusted gross income (AGI) count. Payment for future medical procedures, orthodontia or the payment of your medical insurance premiums can all be advanced or postponed depending on whether you expect to meet your minimum floor or not.

**An important point:** Your health insurance premiums count so long as you're not paying them out of a flexible spending account.

**Miscellaneous itemized expenses** have to exceed 2% of your AGI to qualify. If you're going to exceed the 2% floor, then accelerate your deductions. Prepay your accountant in 2007 to do the tax return that you don't have to file until April 2008. Renew and pay for your investment publications before the end of the year. If you don't have the cash, charge these expenses. The charges are allowed in the year of the charge, not when you actually pay your credit card bill.

**6. Just as we advocate maximizing deductions you should**

**Defer income if you can.** Let's say we don't expect tax rates to rise in 2008. The betting is they'll at least stay constant for a while. If you don't have to take the income in calendar 2007, defer it into 2008. That way, the income is off your 2007 tax return. Postpone the pain.

**7. Pension or IRA contributions are a major source for deferral of income.**

**These are especially important. Unless tax rates shoot up, you want to maximize the retirement deferral your particular plan allows. You want to pay your tax "tomorrow" rather than today.** If you're contributing to a retirement plan such as a 401(k) plan or a 403(b) plan, you can put in \$15,500 this year and the same amount in 2008. If you're 50 or older, you can put in an additional \$5,000 as a catch-up contribution. Other plan types allow for even

larger contributions. Check with your accountant for the maximum that your plan allows.

8. **Cash gifts.** If you might ever be subject to the estate tax, make your \$12,000 tax-free gift (per person per recipient) before the end of the year.
9. **Capital gains and losses.** 2007 has been a wacky, volatile year for investors, You may have some investments that have generated deductible losses while others have (hopefully) major gains. You can use your losses to offset any gains. On a net basis, all capital losses, regardless of whether they're short or long term, offset capital gains on a dollar-for-dollar basis. In addition, you can use \$3,000 of net capital losses in excess of capital gains to offset ordinary income. Any excess left over can be carried forward to 2008.

If you have shares of stock pregnant with gains and you don't expect them to appreciate further, you can either sell those shares and shelter the gains with the losses on your losers, but if you think its time to sell stock that have gains and don't have losses to write off - Pay the maximum 15% tax. You can't go broke taking profits.

10. **Tax-free IRA distributions to charities.** If you're 70 1/2 or older and looking to make a donation to a favorite cause using funds from your individual retirement account, this may be the year to do it. For 2007, you can distribute as much as \$100,000 directly from your IRA without recognizing any income.

## **Plan for the Alternative Minimum Tax (AMT)**

This warning statement may seem be innocuous, but in fact, it is the most important thing for you consider, because if you are subject to AMT much of the advice given above is not applicable. In fact you may need to do the opposite of the things we have recommended above. Even more important than all of this, if it turns out you should have paid the AMT but didn't, you will owe the back taxes, plus any interest and penalty that the IRS decides to dole out.

1. A full discussion of the AMT is provided for you by clicking on this link: <http://FileLibrary.MYAASite.Com/Content/4/4746/25648053.pdf>
2. You should know that people with incomes over \$75,000 are especially vulnerable. The most vulnerable are taxpayers with personal exemptions, several children, interest deductions from second mortgages, home equity loans, capital gains, high state and local taxes, incentive stock options, or if you own a business, rental properties, partnership interests, other taxes, employee business expenses, investment expenses and job-search costs. or S corporation stock. If you earn more than \$100,000 you need to check with your accountant for that reason alone.

3. IRS lists this as the 10<sup>th</sup> most common mistakes that tax payers make. You will find the article: **“The 10 Most Common Tax Mistakes We Make ...Year After Year”** by clicking on this link:

<http://FileLibrary.MYAASite.Com/Content/4/4746/25648168.pdf>

But, the IRS only warns us to compute the AMT in addition to our regular tax computation and to pay the higher of the two. If it turns out you should have paid the AMT but didn't, you will owe the back taxes plus any interest or penalty that the IRS decides to dole out.

MOST OF OUR SUGGESTIONS ARE OBVIOUS AND NON-CONTROVERSIAL BUT, **THIS ”AWFUL MEAN TAX” (AMT) IS THE PRIME EXAMPLE OF WHY YOU SHOULD ALWAYS CHECK WITH YOUR ACCOUNTANT FIRST.**