

AULD LANG SYNE: THESE YEAR-END TAX TIPS CAN SAVE YOU MONEY

Investing a little planning time right now can pay off at tax time. Taxpayers at most income levels can reduce or defer their tax burden by taking a quick inventory of their finances and current situation, then spending a little time planning. The 2003 tax law changes also provide some unique opportunities to maximize tax benefits.

Whether you are an investor, homeowner or planning for retirement, there are some things you should do before the new year. Here are some key points to consider as 2003 draws to a close:

1. Get your records in order.

Get a folder or file drawer ready to save W-2s, 1099s, 1098s, K-1s, and all other relevant receipts and documents. Even if you don't plan to file until the last minute, you will save time and worry – and maybe even tax preparation fees – if you are well-prepared and organized.

2. Retirement Savings.

It's never too early or too late to start saving for your retirement. The biggest retirement news continues to be the Saver's Credit, introduced last year, which makes saving for retirement affordable for low to moderate income taxpayers. The Saver's Credit is a non-refundable credit (of up to \$1,000) per taxpayer for contributions made to an IRA, Roth IRA or qualified employer's plan. Taxpayers do not have to itemize to receive the benefit of the Saver's Credit.

Contribution limits for IRAs are up to \$3,000. And, if you are at least 50 years old on December 31, you may make an additional catch-up contribution of up to \$500.

The best news of all: you have until April 15, 2004 to contribute to an IRA to receive a tax benefit on your 2003 return.

3. Pay deductible expenses by December 31.

In addition to your mortgage interest and real estate taxes, deductible items include medical expenses, charitable contributions, property taxes, investment fees and employee business expenses. Timing your itemized deductions can result in important tax savings. "Bunching" out-of-pocket medical expenses into one year, for example, can mean that at least some of your medical expenses will exceed the 7.5% of AGI limitation. Also, accrued but unpaid property taxes can be paid by December 31 to help reduce your tax this year.

Important: You cannot prepay mortgage interest, property taxes, state taxes or other expenses and claim the deduction this year. To be deductible, an expense must be both paid and incurred this year. Expenses that won't be billed until next year are not deductible until next year, even if you pay them early.

4. Review your investments.

Capital losses can offset capital gains to reduce your tax bill. If you have a gain from the sale of stock this year, consider selling other stocks that will generate a loss. Reducing your capital gain will not only reduce your tax bill, but it will also reduce your adjusted gross income (AGI). Because many deductions and credits phase out based on AGI, even slightly reducing your AGI can mean the difference between getting a tax

benefit or not. **Important:** Consult with your financial or investment advisor before selling investments. Changes in capital gain rates under the new law may affect your decision. And remember, if you sell an investment at a loss and decide to buy it back, you'll need to consider the wash sale rules. Under the wash sales rules, if you repurchase the investment within 30 days before or after the sale, you won't be able to deduct the loss.

Although the year is almost over, there are still some creative, yet legal ways to lower your taxes or help get your 2003 return in order.

— Jackie Perlman,
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5. Retiring? Start your social security next year. If you are retiring before the end of the year, you may be able to lower your taxes by deferring the start of Social Security benefits until next year. Because Social Security benefits are taxable if your income is over a certain limit, benefits received in the last year of work may very well be at least partly taxable. When you do decide to begin receiving benefits, be sure to sit down with your tax advisor to determine how much, if any of your benefits will be taxable. You'll be able to plan your withholding and estimated payments accordingly.

Did you know that you can request that tax be withheld from your Social Security check? File Form W-4V, Voluntary Withholding Request, with the Social Security Administration where you apply for benefits.

Another important note: Even if you decide to delay your Social Security benefits, don't wait to apply for Medicare B benefits. You should apply for Medicare benefits three months prior to reaching normal retirement age (currently age 65 for individuals who turn 65 prior to 2003 and 65 years 2 months for individuals who turn 65 in 2003).

6. Get the most out of next year's employee benefits. Did you miss out on benefits this year because you didn't get your paper work done on time? In addition to health insurance and basic life insurance, your employer may offer pre-tax medical savings, dependent care benefits, additional life insurance, dental and eye-care coverage, and, of course, a retirement plan. In addition to tax savings, these benefits offer valuable protection and financial security for yourself and your family. Be sure to review your 2004 benefits and retirement plan, discuss them with your HR representative or financial professional, and sign up in time!

And yet another important note: Pre-tax medical savings offered under employer cafeteria plans may now be used to purchase non-prescription drugs and other medical supplies, including aspirin, allergy medicines, and bandages. Check with your HR representative to see if your plan has been amended to include this benefit.