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CWR Monthly

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With the 2005 tax season behind us, May would be a good month to review how you came out this tax season and how you might begin to maximize your deductions for 2006.

One question you might ask is:

Did I have to pay a large tax liability when I filed my tax return this year?

If so, then you should consider either making estimated tax payments through the year or have additional taxes withheld from your paycheck to offset the large tax liability at the end of the year.

Another consideration would be to evaluate your itemized deductions. Are there ways that you can increase your itemized deductions without increasing your monthly cash outlay? Perhaps you might consider a home equity loan (tax deductible) to consolidate some debts that you are carrying that are not tax deductible (i.e. credit card debt, car payments, etc.) Or you might consider going through items that you seldom or never use and contribute those items to a charity. Non cash charitable deductions can add up to a substantial deduction at the end of the year.

How about contributions to your 401(k) or your traditional IRA? Are you maximizing the contributions you can make? Both of these are tax deferred programs meaning that you do not have to pay any tax on the earnings until you begin to take distributions when you retire. In addition, your contributions will be tax deductible in the year that you make them (based on the parameters of each program).

Another question you might ask is:

Did I receive a large tax refund this year?

If so, then you may need to re-evaluate your estimated tax payments or tax withholdings from your paycheck. The additional money that was withheld through the year could have been earning you interest that you did not receive. Your tax professional can help you evaluate how much you should have deducted from your paychecks to maximize your earnings.

Consider using this month to develop your 2006 tax strategy! You will be glad that you invested the time when next tax year rolls around.

Til next time,

Charlie