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CWR Monthly

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As we enter the last two months of the year, the time approaches for filing our 2006 tax returns. November and December newsletters are devoted to helping you discover some ways to maximize your deductions for 2006. While none of us enjoy paying taxes, it is inevitable that we are required to pay what our legislators have deemed to be our fair share of the taxes needed to support the governments we have elected them to provide.

Too often though, many folks wind up paying more than their fair share because they do not take advantage of provisions in the tax code that will reduce their tax liability for the current tax year.

While I firmly believe that we should obey the tax laws in force, I do not believe that we should pay more than what we are required to pay.

It is my desire that the following suggestions will assist you in your tax planning for the remainder of this tax year. While these suggestions are not exhaustive in description and should not be regarded as individual tax advice, hopefully they will encourage you to seek out the advice of your personal tax advisor as how they may apply to you.

Charlie

12 Last minute ways to reduce your tax liability for 2006

1. Maximize your traditional IRA contributions for 2006.

You have until April 16, 2007 to maximize your traditional IRA contributions for 2006. If you had earned income in 2006 you can contribute up to \$4000 of your earned income (\$5000 if you are age 50 or older by the end of 2006). If married filing jointly, both you and your spouse can each contribute up to \$ 4000 (\$5000 each if 50 or older) to their individual traditional IRAs. The amount of deduction you are eligible for is dependent upon whether you participate in a qualified retirement plan at your workplace.

2. Paying an additional Student Loan payment by December 31, 2006.

If you have a Student Loan, by making an additional payment by December 31, 2006 you can decrease your taxable income by the interest amount included in that payment. The maximum amount deductible is \$ 2500 per year. Restrictions to the deductible amount may apply based on your filing status and your Modified Adjusted Gross Income.

3. Make an additional mortgage payment by December 31, 2006. *

If your mortgage payment is due January 1, 2007, making that payment by December 31, 2006 will allow you an additional mortgage interest deduction in 2006. Doing so will reduce your taxable income by the amount of the additional mortgage interest deduction. The same applies if you make an additional payment on your home equity loan.

4. Make a last minute non-cash charitable contribution in 2006. *

Got any items that you no longer need? Gathering them up and making a contribution to an accepted non profit charitable organization (i.e. churches, Salvation Army, Goodwill, etc.) will reap you, not only a sense of feeling that you are helping others in need, but also, an extra deduction on your income taxes, thus reducing your taxable income by the amount of the contribution. In addition, you can also deduct the standard charitable mileage allowance 14¢ per mile for delivering your contribution to the charitable organization.

5. Pay outstanding medical expenses by December 31, 2006.*

If you have outstanding medical expenses that would increase your total medical expenses for 2006 to more than 7.5% of your Adjusted Gross Income (AGI), paying those expenses by December 31, 2006 will allow you an additional deduction in 2006, thus reducing your taxable income. Your deduction is allowable even if you pay the outstanding medical expenses with a credit card.

6. Calculate your mileage for 2006.

This is often a forgotten deduction for many people. However, the mileage expense for using your personal vehicle is deductible for the following activities:

- a. Medical Treatment – Mileage to your doctor, physical therapist, pharmacist, etc. is deductible. Code section 213 allows a deduction for “transportation primarily for and essential for medical care”. The deduction is limited to the total medical expenses in excess of 7.5% of your Adjusted Gross Income. *
- b. Moving Expenses – Mileage expenses incurred, when changing jobs, of at least 50 miles from your previous residence are deductible.
- c. Service to a Charitable Organization – Mileage expenses incurred in performing a service to a charitable organization is deductible. *
- b. Business Mileage – Mileage incurred in using your personal vehicle for legitimate business purposes are deductible.

7. Don't forget Miscellaneous Expenses.*

Many of the miscellaneous expenses you can deduct are subject to an amount greater than 2% of your Adjusted Gross Income: The most prominent ones include:

- a. Dues paid to a professional society
- b. Employment related educational expenses
- c. Expenses for looking for a new job
- d. Professional books and magazines
- e. Union dues and fees
- f. Business related travel, transportation, meal, and entertainment expense
- g. Work clothes and uniforms
- h. Legal fees to collect taxable income, such as alimony
- i. Fees for renting a safe deposit box to store investment related material
- j. Subscriptions to investment journals
- k. Investment counsel fees
- l. Fees for having a tax return prepared

8. Dump that bad stock by December 31, 2006.

If you own a stock that you have been considering selling because of poor performance (i.e. loss in principle), consider selling it by December 31, 2006 to claim a capital loss. You can deduct up to \$3000 per year in net capital losses. Any additional net capital losses can be carried over to succeeding years.

9. If you have a small business, hold off billing until January 1, 2007.

By waiting until January 1, 2007 to send billing statements, you can reduce the amount of taxable income for 2006.

10. If you have a small business, pay invoices due in January by December 31, 2006.

By paying an invoice due early in January by December 31, 2006 you can deduct the expense in 2006, thus reducing your taxable income.

11. Fully expense those depreciable assets purchased in 2006

You can deduct up to \$108,000 of qualified depreciable property purchased in 2006 for your business by electing to expense those items under Code Section 179 expense election. To claim the expense in the first year, the property must be used more than 50% for business use and the deduction is limited to the taxable income you had from the active conduct of any trade or business during 2006.

12. Gather all your supporting documents needed to prepare your tax return.

While this is not a direct way to reduce your tax liability for 2006, allowing sufficient time to collect all your necessary supporting documents may uncover some deductions that you might otherwise overlook. Remember, your tax preparer can only prepare your returns based on the information that you supply.

*** Itemized deduction only allowable by filing a 1040 Schedule A.**

Summary

By gathering your information now and capitalizing on the tax saving tips above, you can potentially reduce your tax liability by a considerable amount in 2006.

December's newsletter will focus on collecting and assembling the information necessary to accurately prepare your 2006 tax returns. It will also give you pointers on how to keep your tax preparation costs down and the filing procedures that will get your refund the fastest.

Til next time,

Charles W. Register, EA
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