

Tax tips for this year ... and next

Do following now for payoff in April

[Detroit News wire services /](#)

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It's the holiday season, time to deck the halls and dodge the tax collector.

True, you don't have to prepare your tax return until April 15, and most people can get automatic extensions on the paperwork even then.

But there are things you can do to trim your federal and state income tax bills, and many are things you must do before Jan. 1.

There are big, big things, like checking whether your family has become prosperous enough to be clobbered by the alternative minimum tax. And there are some ordinary-sounding things, like checking whether you have enough deductions to make the extra paperwork -- and the search for more deductions -- worthwhile.

Some strategies involve good tidings, like giving to charity and thereby running up your deductions.

And there are strategies designed specifically for investors. "We revisit our portfolio on a quarterly basis and determine if we have anything that would be good to sell," said Marcia Couch. "In November, we also include tax considerations."

Here are 10 stratagems to follow and sinkholes to look out for:

1 **Alternative minimum tax**

The dreaded AMT catches several million taxpayers every year, and the number is growing rapidly.

Worse yet, it requires millions more taxpayers to make a second set of tax calculations just to find out if they got caught in an ambush originally set for truly rich tax finaglers.

The idea of the AMT was to ensure wealthy people couldn't escape the income tax entirely. But it has never been adjusted for inflation, with the result that upper-middle-income families are getting tagged. According to one recent study, 1 percent of taxpayers with incomes between \$75,000 and \$100,000 face the AMT this year.

AMT calculations force reluctant taxpayers to restore certain deductions, credits and exclusions to their taxable income. Then they must figure out how much their tax would be under AMT rules.

Uncle Sam requires you to pay the higher amount, whether straight income tax or AMT.

If you paid under AMT rules last year, chances are you will again. You may also be at risk if you have lots of kids, deductions, credits or stock options. Best idea: Run some sample calculations on tax preparation software or hire a CPA or other tax expert to do it for you.

2 **Retirement accounts**

Topping off your retirement account can lower your state and federal income tax bills when you file by April 17. (You'll have a couple extra days to do your taxes next year because the usual filing day of April 15 falls on a Saturday.)

One of the easiest steps to take is to make sure you've contributed the maximum allowed to your retirement plan. Contributing to a company-sponsored 401(k) plan packs a double wallop because you're saving for your future and you're doing it with pretax dollars, which reduces your taxable income.

This year, the limit on 401(k) account contributions is \$14,000. Those 50 and older can add an additional \$4,000. The same limits apply to 403(b) retirement accounts for workers in nonprofit organizations and 457 accounts for government employees. Next year, the ceilings go to \$15,000 for most workers, with a \$5,000 "catch-up" provision for those 50 and older.

"We're certainly not over-saving as a nation," Rande Spiegelman, vice president of financial planning at the Schwab Center for Investment Research, said of the nation's low savings rate. "There's a big worry that millions of baby boomers will be retiring without adequate resources."

Those who don't have employer-sponsored accounts can set up their own Individual Retirement Accounts or Roth IRAs at banks, brokerages and other financial institutions.

The contribution limit for IRAs this year is \$4,000, with an additional \$500 allowed for those 50 and older. Next year, the basic contribution limit stays at \$4,000, but the catch-up contribution rises to \$1,000.

Traditional IRAs are funded with pretax money, so they can help reduce taxable income -- and taxes -- now. Roth IRAs don't get a tax break now, but grow tax-free forever.

3 Hired guns

For a number of years now, the majority of individual taxpayers have hired somebody to figure out their taxes. "In spite of all the talk about simplicity, in fact the tax code has gotten more complicated every year," said Mark Luscombe, principal federal tax analyst for CCH, a major supplier of tax information and analysis.

You read it here first: The standard Form 1040 for 2005 is actually one line longer than last year's.

To itemize or not to itemize: Individual taxpayers are entitled to a standard deduction, which for 2005 taxes will be \$5,000 for those filing individually and \$10,000 for married filing jointly.

You can choose to subtract that amount from taxable income or to itemize the deductions you are entitled to. Among the most common deductions are mortgage interest, real estate taxes, charitable contributions, medical expenses over certain limits, and state and local taxes.

In general, tax advisers say to take your deductions as soon as you can (and put off income as long as you can).

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5 Bunching deductions

If itemized deductions are close to the standard deduction, you may benefit by crowding as many deductions as you can into this year.

If that maneuver significantly lowers deductions next time, you can take the standard deduction then.

You might choose to double up on charitable contributions before Jan. 1, for example, or make your January mortgage payment in December.

"If you are making an early mortgage payment, you want to make sure your bank knows to credit it as interest payment during 2005," said Bob Scharin, editor of Warren, Gorham & Lamont/RIA's Practical Tax Strategies newsletter. "You don't want the bank's bookkeeper to be slow and not credit it until 2006, or to credit it as a principal payment."

6 Credit cards

If your charitable impulse is bigger than your wallet, remember that a lot of charities will let you charge your contributions. "You get the 2005 deduction even though you don't pay the bill until next year," Scharin pointed out.

7 Katrina contributions

The federal government has established a number of tax breaks for hurricane victims and for hurricane-related charitable contributions. For full details, go to www.irs.gov and click on Help for Hurricane Victims.

8 Buy! Sell!

Call your stock broker or take a hard look at your online brokerage account. If you expect capital gains distributions on your mutual funds or you've sold stocks at a profit, perhaps you can find some losing investments to sell as an offset. And "excess" losses can be used to offset up to \$3,000 of ordinary income.

9 State and local taxes

This year you can choose to deduct sales taxes rather than income taxes. This is a big deal for states like Texas, which have no income tax.

10 Wait until next year

The Energy Tax Incentives Act of 2005 provides three tax credits that will help -- but not until 2006. Next year, homeowners can get credits for installing certain energy-saving fixtures and appliances.

The tax break for buying hybrid vehicles will be more attractive next year, when current deductions are canceled and replaced with more generous credits, according to Luscombe. So if you're planning such purchases, you might want to wait.