SIX YEAR-END TIPS TO REDUCE 2011 TAXES

With the New Year fast approaching, there is still time for you to take steps that can lower your 2011 taxes. However, you usually need to take action no later than Dec. 31 in order to claim certain tax benefits.

Here are six tax-saving tips for you to consider before the calendar turns to 2012:

1. Make Charitable Contributions – If you itemize deductions, your donations must be made to qualified charities no later than Dec. 31 to be deductible for 2011. You must have a canceled check, a bank statement, credit card statement or a written statement from the charity, showing the name of the charity and the date and amount of the contribution for all cash donations. Donations charged to a credit card by Dec. 31 are deductible for 2011, even if the bill isn't paid until 2012. If you donate clothing or household items, they must be in good used condition or better to be deductible.

2. Install Energy-Efficient Home Improvements – You still have time this year to make energy-saving and green-energy home improvements and qualify for either of two home energy credits. Installing energy efficient improvements such as insulation, new windows and water heaters to your main home can provide up to $500 in tax savings. Homeowners going green should also check out the Residential Energy Efficient Property Credit, designed to spur investment in alternative energy equipment. The credit equals 30 percent of the cost of qualifying solar, wind, geothermal, or heat pump property. For details see Special Edition Tax Tip 2011-08, Home Energy Credits Still Available for 2011 on the IRS.gov website.

3. Consider a Portfolio Adjustment – Check your investments for gains and losses and consider sales by Dec. 31. You may normally deduct capital losses up to the amount of capital gains, plus $3,000 from other income. If your net capital losses are more than $3,000, the excess can be carried forward and deducted in future years.

4. Contribute the Maximum to Retirement Accounts – Elective deferrals you make to employer-sponsored 401(k) plans or similar workplace retirement programs for 2011 must be made by Dec. 31. However, you have until April 17, 2012, to set up a new IRA or add money to an existing IRA and still have it count for 2011. You normally can contribute up to $5,000 to a traditional or Roth IRA, and up to $6,000 if age 50 or over. The Saver’s Credit, also known as the Retirement Savings Contribution Credit, is also available to low- and moderate-income workers who voluntarily contribute to an IRA or workplace retirement plan. The maximum Saver’s Credit is $1,000, and $2,000 for married couples, but the amount allowed could be reduced or eliminated for some taxpayers in part because of the impact of other deductions and credits.

5. Make a Qualified Charitable Distribution – If you are age 70½ or over, the qualified charitable distribution (QCD) allows you to make a distribution paid directly from your individual retirement account to a qualified charity, and exclude the amount from gross income. The maximum annual exclusion for QCDs is $100,000. The excluded amount can be used to satisfy any required minimum distributions that the individual must otherwise receive from their IRAs in 2011. This benefit is available even if you do not itemize deductions.

6. Don't Overlook the Small Business Health Care Tax Credit – If you are a small employer who pays at least half of your employee health insurance premiums, you may qualify for a tax credit of up to 35 percent of the premiums paid. An employer with fewer than 25 full-time employees who pays an average wage of less than $50,000 a year may qualify. For more information see the Small Business Health Care Tax Credit page on IRS.gov.

And here is one final tip to remember: you should always save receipts and records related to your taxes. Good recordkeeping is a must because you need records to prepare your tax return, and it will help you to file quickly and accurately next year.

For more information on this and other tax tips, contact our office at (208) 743-7790, or stop by our office at:

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