Tax planning and tax avoidance (cont.)

- ✓ Take advantage of the Section 179 expense option for depreciable assets of your business.
- ✓ Examine how to take advantage of post-secondary education tax credits and tax favored savings plans.
- ✓ Consider gifts to minors and beneficiaries over time to reduce investment income and future estate taxes.
- ✓ Consider business use of your home to capture business expense deductions.
- ✓ Plan other capital acquisitions and sales to offset gains with losses and to capitalize on lower long-term capital gains tax rates.
- ✓ Consider moving interest bearing investments to dividend bearing given lower tax rates.
- ✓ Consider like-kind exchanges to reduce capital gains tax exposure. If you intend to buy replacement property you can effectively defer a taxable gain into the future with a like-kind exchange.
- ✓ Take advantage of the $250,000 ($500,000 married) capital gain exclusion for the sale of your personal residence. The new exclusion can be used once every two years for your primary residence.
- ✓ Don't neglect estate planning strategies for you, your spouse, children and your parents, if needed.

A WORD ON TAX FREE YIELDS

When is it better to invest in a lower yield tax free investment versus a traditional taxable investment? It depends upon your financial plan, investment risk profile and balanced portfolio need. Those elements aside, to aid you in comparing the investments, use the following formula:

Tax-free yield / 1 minus your federal tax bracket = taxable yield.

For example: Assume you are in the 25% marginal tax bracket and want to buy tax free municipal bonds with a 6% yield. The equivalent yield you would need in a taxable savings account or taxable investment would be 8.0% (.06/(1-.25) = 8.0%).

THE TAX PLANNING PROCESS

A typical Tax Planning Cycle runs for one year. The best time for review is usually after the new tax laws have been introduced. This is typically in the September/October time frame. The steps in the planning process may go something like this:

Activity	Timing
1. Initial Interview/Review	Sept./Oct.
2. Conduct a next year tax forecast based upon established objectives	November
3. Develop recommendations/ estimates for: • Income • Withholdings • Deductions • Investments • Business expenses • Credits • Retirement (IRAs, 401(k), etc.) • Tax reduction ideas • Estimated payments (if required) • Long-term tax plan	December
4. File prior year tax return	Feb. - April
5. Conduct a mid-year review • Assess withholdings • Estimate year end situation • File quarterly estimates • Update the long term document	June/July
6. Review of any new tax law changes and situational changes as required.	Ongoing

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.

Tax Planning

Tax planning tips for every taxpayer

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The concept of Tax Planning is often an overlooked means of saving hard earned income. The laws are complex, the fear of an audit looms in the distance, and tax implications are not top of mind until it is time to file a tax return.

Remember that the Government only requires you to pay the proper amount of income taxes and NOT A DIME MORE. This concept has held true in many tax court cases where judges have noted it is not wrong to take steps to reduce one's tax obligation within the limits of the tax code.

ELEVEN COMMON MISTAKES

MISTAKE #1. The biggest mistake made is waiting until too late in the year to assess your tax obligation. Often it's too late to take action or cash is not available to handle the obligation.

MISTAKE #2. Making a financial decision without conducting alternative tax obligation scenarios. Buying and selling a home, business, or investment are common examples.

MISTAKE #3. Under or over withholding State and Federal income taxes.

MISTAKE #4. Not taking full advantage of tax free and tax deferred programs. (i.e. retirement and education savings plans)

MISTAKE #5. Not reviewing and adjusting your W-4 (withholdings) after a life change (i.e. marriage, divorce).

MISTAKE #6. Not keeping adequate records of deductible expenses.

MISTAKE #7. Not protecting your assets from the final tax bite should you pass away (Estate Planning).

MISTAKE #8. Overlooking charitable donations.

MISTAKE #9. Using non deductible consumer debt (credit cards and auto loans) instead of deductible, Home Equity debt instruments.

MISTAKE #10. Failing to take into account changing tax brackets and the AMT (alternative minimum tax) amounts. This is important with the lower tax rates available for certain capital gains and corporate dividends.

MISTAKE #11. Failing to take advantage of tax credits and all allowable deductions.

TAX PLANNING CHECKLIST

There are a number of events that should trigger a review of your tax situation. The following is a list of the most common. Seek advice and run alternative tax scenarios prior to deciding the best approach for your situation when:

- You borrow money or refinance
- You decide to pay off a loan
- You are planning for retirement
- You buy or sell stock and mutual funds
- You consider adding to or withdrawing from a tax deferred savings program (IRA, 401(k), etc.)
- You are retiring
- You are getting married or divorced
- You buy or sell your home
- You want to make a large gift to a child or relative
- You are considering a move
- You are considering starting, buying or selling a business
- You are incurring business expenses as an employee
- You are buying or selling business equipment
- You are holding an uncollectible note
- You are considering a large charitable gift
- You are buying or selling any kind of property
- You incur or expect to incur large medical expenses
- Your employer offers you a lump sum payment of your pension versus an annuity
- You incur or expect to incur large education expenses
- You are the beneficiary of an estate

TAX REDUCTION/AVOIDANCE IDEAS

To benefit the most from tax planning and avoid the common mistakes mentioned earlier, develop a tax strategy for your situation. The strategy should incorporate the following planning principles:

1. WHEN is the best time to complete a transaction that impacts your tax situation?
2. HOW do you reduce your overall tax burden? What options are available?
3. DEFER any tax obligation, penalty free for as long as possible.
4. MATCH high income with high deductible expenses whenever possible.
5. CONSIDER your marginal tax bracket when making decisions. The next dollar you earn could be taxed from 10% to 35%.

Some common tax planning and tax avoidance ideas are:

✓ Invest fully in tax deferred IRAs, Keoghs, SEPs and 401(k) programs.

✓ Explore all the IRA programs such as the Roth IRA and the Coverdell Education IRA.

✓ Look to expand funding for spousal IRAs.

✓ Take full advantage of the interest deductibility of your home mortgage and home equity loans versus credit card debt or other loans.

✓ Look into Annuities for their tax benefits.

✓ Explore using tax deferred cash value life insurance.

✓ If you have a casualty loss, shift income to the same year to maximize the available write off.

✓ Buy tax-free municipal bonds and bond funds.

✓ If you own a home, consider making an additional payment to shift interest expense into a high income tax year.

✓ Make sure you have a QDRO (Qualified Domestic Relations Order) that is negotiated as part of a divorce decree to address the tax implications of the asset allocation.

✓ Begin planning for retirement early. Conduct income forecasts and continually rebalance your estate to reduce taxes.

continued on back