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## Year-End Strategies for a Happier Tax Return

By **Mary-Beth Juszczuk**

With the year's end fast approaching, H&R Block reminds taxpayers there's still time to minimize your tax bill for 2008 and build a strong financial base for 2009.

Check out these tips that can guide you through the sometimes confusing ins and outs of year-end tax planning:

1. **Estimate your income and deductions.** Assessing this year's likely income against projected 2009 earnings is the key to making wise decisions at tax time. If it looks like you'll make more in 2008 than you did in 2007, you may benefit by bunching certain deductions into 2008.

Also, if you expect to make more in 2009 than in 2008, you may want to bunch deductions next year in order to minimize the taxes you'll owe in 2009.

2. **Maximize contributions to company-sponsored plans.** This is a great place for a tax break. If you have not contributed the maximum to your 401(k), find out if you can increase your contributions for the year. Your contributions are made pre-tax, which reduces your adjusted gross income and overall tax bill.
3. **Take required minimum distributions (RMD).** If you turned 70 ½ in 2008, you must take your required minimum distributions from your traditional IRA no later than April 1, 2009, even if you are not yet retired. However, you may want to take your first RMD in 2008 because your second RMD must be taken by Dec. 31, 2009. If you don't take your required minimum distributions, you may owe a 50 percent penalty on the amount you should have taken.
4. **Pay tuition for spring semester now.** If you, your spouse or your dependents will have a college tuition bill for the spring 2009 semester, you might benefit from paying the spring semester tuition before the end of 2008.

That's because education credits are subject to income limits. For 2008, the phase out begins when modified adjusted gross income reaches \$48,000 – or \$96,000 for married taxpayers filing a joint return. The Hope or Lifetime Learning credits may not be taken once your modified adjusted gross income reaches \$58,000 – or \$116,000 for married taxpayers filing a joint return.

If you expect a raise in 2009 that will bring your income into or over the phase-out range, pay the tuition now to be sure you can take advantage of the Hope Credit or Lifetime Learning credit. **Note:** To take advantage of this special provision, the 2009 semester must begin no later than March 31, 2009.

5. **Look out for Alternative Minimum Tax (AMT).** Completing a year-end tax projection can help determine if you'll be subject to the AMT. Some itemized deductions are not allowed under the AMT, which can result in a higher tax bill. Tactics to minimize the impact of alternative Minimum Tax include deferring capital gains (when appropriate), considering the timing risks associated with exercising incentive stock options, and minimizing unreimbursed business expenses.
6. **Consider your IRA.** If you're eligible to deduct your IRA contributions, you can make traditional IRA contributions to decrease your 2008 income. And you can contribute right up until April 15, 2009, to affect your 2008 return.
7. **Look at your withholding.** Now is the time to ensure that you have enough tax withheld or have paid enough estimated tax to meet your projected obligations and — in the case of the estimated tax — to avoid a penalty for underpayment.
8. **Plan your “green” deductions.** Buying a hybrid car or truck in 2008 may allow you a tax credit ranging from \$650 to \$3,000. The credit is based on the make and model of the vehicle and how many have been produced by the manufacturer.
9. **Hold your teenager's investments for a few more years.** If you're thinking of giving investments to your child so that the income will be taxed at a lower rate, be aware that beginning in 2008 the “kiddie tax” rules continue to apply until your child reaches age 18. And, depending on your child's school and support status, these rules may continue to apply until your child turns 24. If the kiddie tax rules apply, your child's unearned income, such as interest and dividends in excess of \$1,800, is taxed at *your* marginal tax rate.
10. **Examine your portfolio.** If you have a large net capital gain in 2008, you might want to consider reducing your tax liability by selling some stock that will generate a loss before year-end. Offsetting a short-term capital gain can be particularly advantageous, since such gains can be taxed as high as 35 percent in 2008.

If you have questions about year-end tax planning, talk to your tax professional or visit [www.hrblock.com](http://www.hrblock.com). The site offers tax and financial calculators that can help you with financial decisions all year long.

***You can call the H&R Block Lake Ella Plaza office at 850-385-1610 for further questions and comments.***

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