



# KALABASH FINANCIAL

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## YEAR-END PLANNING

**A**s the year quickly winds down, there are certain steps you can take that will help you save come tax season. In this issue, we'll address some of these valuable tax saving strategies. These tips are for discussion purposes only and should not be considered tax advice. Always consult with your tax advisor because we do not offer tax advice.

### INCOME DEFERRAL

One way to minimize your adjusted gross income is to hold off on any holiday bonuses until January rather than taking them in December. This applies to any retirement plan distributions as well. However, keep in mind that you will need to claim the income for 2008 and it may or may not be to your benefit to defer. Plan ahead for maximum deferral.

### TAXABLE INVESTMENT CONTRIBUTIONS

Another thing to do may be to refrain from making any investments in taxable, non-retirement accounts at the end of the year. By making these contributions, you could be creating unnecessary taxes for yourself because most investment firms distribute dividends and make capital distributions at the end of the year. You will need to claim this income for 2007, so you could wait till January to make any sizable investments.

### REFINANCING YOUR MORTGAGE

If you have an adjustable rate mortgage, you may want to consider refinancing your home. By switching to a fixed rate mortgage you could deduct points or other finance fees against your current taxes while improving your future financial

situation. Shop around and see if there are any low, fixed rates available to you.

### MORTGAGE INTEREST AND PROPERTY TAXES

A great option for those of you who already have a fixed rate mortgage is to pay your mortgage and property taxes in advance. If you pay January's mortgage payment in December, you could deduct the interest in 2007.

### HYBRID VEHICLES

By purchasing a fuel-efficient vehicle, you may qualify for a one-time tax credit during the year of purchase. A hybrid vehicle is one that is powered by both an internal combustion engine and a rechargeable battery. The energy tax credit you can receive varies depending on the make and model of the car. Credit amounts begin to phase out once a manufacturer has sold its 60,000th eligible hybrid.

### FLEX-SPENDING REIMBURSEMENTS

Most plans follow the use-it-or-lose-it philosophy, so be sure to claim all or as much as you can of the money you set aside. With this pre-tax money, you can get reimbursed for healthcare and dependent-care expenses, over-the-counter medicines and even contact solution that aren't covered by your insurance. Double check with your employer for the reimbursement deadline and maximize your flex-spending benefits.

### CHARITABLE GIVING

A common tax saving strategy and one that benefits others is charitable giving.

By donating assets to a non-profit organization, you can deduct its fair market value. Some assets require appraisal, but as long as the items are in good condition, you can donate them. Even large ticket items like cars or boats can be gifted simply by providing a receipt from the non-profit organization and assessed value.

### RETIREMENT PLANS

Contributions to a Traditional IRA could reduce your taxable income for the year. The contribution limit for 2007 is \$4,000 with a \$1,000 catch up for those 50 years and older. You could also maximize 2007 contributions to any tax-deferred savings plan, such as a 401(k) or 457 deferred compensation plan.

### ANNUAL GIFT TAX EXEMPTION

One of the most underused tax saving strategies is the annual tax gift exclusion. The gift tax applies to the transfer of any property (including money). For 2007, the IRS allows anyone to make a gift of up to \$12,000 to another individual tax free. This will reduce the amount of your estate, and upon the death of the donor, will reduce the amount of estate tax.

Taxes laws are constantly evolving so it is best to seek advice from your tax advisor or contact me at 539-0133 for a list of tax sources.

