



Year-end tax saving opportunities

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Published in Racine Journal Times—December 2, 2011

While the April 17 deadline to file your income taxes is still more than four months away, identifying a couple of tax-saving opportunities now may add a little holiday cheer to your bottom line. Strategies that helped our clients fulfill their goals of supporting charities and providing college educations for their children are worth exploring further.

For anyone older than 70 1/2, 2011 represents the last year to donate directly to a charity from your IRA retirement accounts. Not only does this help you avoid taxes on the withdrawal, but the amount is also not included as income on your tax return. Social Security income recipients may find this strategy particularly appealing because the amount of your Social Security benefits that are taxable is based on your other income.

For example, if a couple's adjusted income exceeds \$32,000 (which includes half of their Social Security benefit plus all their other income), then part of their Social Security benefits may be taxable. Distributions from an IRA payable to a charity are not included in this calculation, resulting in lower income taxes.

For people with children in college, 2011 and 2012 will be the last years you can claim the American Opportunity tax credit which has been one of the best education tax credits because of the tax savings it represents. Based on \$4,000 of qualified expenses, the credit is worth \$2,500. Credits are even better than tax deductions since they provide an equal amount of tax savings instead of just a reduction in income subject to income taxes.

Taking into consideration the eligibility rules and how to pay for qualified expenses is important in order to maximize the American Opportunity credit. To be eligible, married couples' total income must be less than \$180,000 (\$90,000 for single taxpayers), which is more generous than other education tax credits. In addition, the student must be enrolled at least half-time in his or her first four years of college.

Eligible expenses include tuition along with course-related books and supplies paid during the same year the credit is taken (even if the semester itself begins the following year). Pay attention to how the expenses are paid, since expenses claimed for the American Opportunity credit cannot be claimed for other education tax benefits (such as tuition deductions or 529 College Savings Plan tax-free distributions).

Whether it's donating to charity more efficiently or optimizing college tax credits, the tax system offers several opportunities for reducing income taxes while achieving important goals. Knowing in advance about the reduced tax burden may also lift holiday spirits a bit higher!