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BEATING THE YEAR END TAX-PLANNING RUSH

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Year-end is fast approaching. Now is the time take action to reduce your 2006 tax bill. Here are seven strategies to consider:

1. Open a new retirement plan. Small businesses should consider a solo 401(k) or a Safe Harbor 401(k). New rules make small 401(k)s more cost effective and less cumbersome than ever. Participants can now shelter up to $44,000 for 2006. You might also consider less complex alternatives such as a SIMPLE or SEP plan. If you're looking for greater tax savings, Defined Benefit Plans allow s*ignificantly larger* pretax contributions than any of the other plans.

2. Begin required IRA distributions. If you turned 70½ this year, you must start minimum IRA distributions by December 31st. Technically, you may delay your initial distribution until April 1 of next year, but that would result in two required distributions for 2007 (your 2006 distribution and your 2007 distribution would both be taxed on your 2007 return). That could push you into a higher tax bracket and also subject more of your Social Security income to taxation.

> *In this world, nothing is certain but death and taxes.* **Benjamin Franklin (1789)**

3. Pay attention to mutual fund distributions. Don't get caught having to pay tax on capital gains declared by a fund that lost money. If you plan to replace the fund anyway, sell it before the "ex-dividend" date (usually November/December). Moreover, don't buy into a fund just prior to its "ex-dividend" date. You could wind up paying tax on gains you never earned.

4. Review investment gains/losses. It's time to consider selling your losers to offset your winners. Also, consider selling winners and sheltering their gains with losses previously realized (and perhaps re-purchasing those winners later). If you don't have investment profits to offset, you can still use investment losses to shelter $3,000 of ordinary income and carry surplus losses into the future.

5. Bunch deductions. A time-honored tax strategy is to bunch deductions into a single tax year. For example, you might prepay next year's property taxes or next January's mortgage payment. Bunching elective medical expenses also might push you over the 7.5% deductibility threshold. (*Tip:* If you're self-employed – e.g., a sole proprietor, partner, or 2 percent S corporation shareholder – you may be able to deduct up to 100 percent of the cost of health insurance that you provide for yourself, your spouse, and your dependents. This deduction is taken on the front of federal Form 1040 as an above-the-line deduction; it isn't limited to amounts over 7.5 percent of your AGI.)

6. Consider charitable deductions. Consider increasing charitable contributions in higher income years and/or delaying your donation of investments until they regain value — so you'll get a larger tax deduction. (Better to donate appreciated assets than to sell them and donate the cash proceeds.)

7. Purchase business assets by year-end. All businesses can write off up to $108,000 for qualifying equipment purchases. Also, the purchase of automobiles and light trucks can be of benefit if used for business. The maximum first year write-off for a business use automobile is $2,960; first year truck/van is $3,260; and first year electric vehicle is $8,980. Heavy vehicles used for business can do even better: SUVs and vans weighing over 6,000 pounds can be immediately deducted up to $25,000 if the vehicle is used a minimum of 50% for business.

Because some of these strategies are complicated and may conflict with each other, be sure to consult a qualified advisor prior to implementation. Feel free to call us at 607-4820 or visit us at www.puckettadvisors.com.

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