



TAX TIME – THE HARBINGER OF SPRING

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Tax-time and springtime – both are just around the corner. Take care of the former to better enjoy the latter.

At this point, it's too late to do much of the meaningful tax planning that could have occurred before January, but there are a few things you can still do that might further reduce your tax liability.

1. **Convert taxable to non-taxable income.** You have until your tax filing deadline to make a regular IRA contribution and potentially claim a deduction. However, tax-free investments can be better for some.

Spring is when life's alive in everything.
Christina Rossetti

If you qualify, a Roth IRA is a great way to accumulate wealth on a tax-free basis and distributions can be tax-free. The 2005 limit for IRAs (regular and Roth) is \$4,000 with a \$500 “catch-up” for those 50 and older.

2. **Defer taxes to a subsequent year.** Investing in your employer's retirement plan [i.e. 401(k), Thrift Savings Plan, SIMPLE, or 403(b)] can allow you to save pre-tax money for retirement. Self-employed can fund a SEP until their tax filing deadline. Defined benefit plans work wonders in the right situation. All these plans keep you focused on the future while providing shelter from current taxes. Contribution limits vary.

3. **Income shifting.** You can reduce your tax burden by gifting to children or grandchildren (over age 13) such things as income-producing securities or real estate. The annual exclusion has been raised to \$12,000 for 2006.

4. **Deduct all allowed expenses.** Many people overlook deductible expenses such as alimony, business expenses, state and local income taxes, and mortgage interest. Charitable contributions and financial advisory fees can be deducted subject to IRS guidelines.

5. **Time income and expenses.** Projecting income and expenses can help you pay lower taxes over time. Realizing gains when income is lower or increasing charitable contributions when income is higher are effective strategies.

6. **Check your 1099s – twice.** Hastily pulling your 1099s together to prepare your taxes without reviewing them could cost you. Over 10% of 1099s issued annually contain errors. Check yours before reporting them on your tax return to avoid having to file an amended return or paying a penalty.

7. **Be organized.** As your financial situation changes, so will your tax situation. By keeping good records you will simplify yearly tax preparation and be able to better review and revise your plan as necessary.

8. **File an extension rather than rushing and making mistakes.** If you file for an extension (IRS Form 4868), you have until August 15th to file your tax return. However, if you owe taxes, full payment is due by April 15th to avoid penalties and interest.

Good tax planning is an ongoing process, not an annual event. A competent advisor will ask you the right questions at the right times to help you pay no more than legally required. If you don't already have a trusted advisor, now is a good time to start looking. With your financial house in order, springtime will be even more enjoyable.

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