The Tax Picture

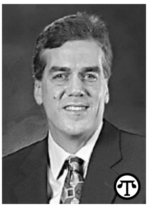
Make Tax-Smart Choices Now To Save All Year Long

by Rande Spiegelman, CPA, CFP

(NAPSA)—It's not how much money you make, but how much you keep that counts. Here are three tax-savings tips you can act on now to maximize your after-tax cash flows.

Maximize Your Retirement Dollars

Contributions to your employer-sponsored retirement plan—such as a 401(k)—reduce your taxable income and may carry the added bonus of an employer match. If you haven't already, consider increasing your contribution to maximize your employer match. If you've already maxed out your company-sponsored plan, or don't have access to a retirement savings plan at work, consider investing in an IRA. Contributions to your traditional IRA are tax deductible in many cases. You might also consider contributing to a Roth IRA if you're eligible. While Roth contributions aren't tax deductible, you can withdraw the money tax-free if you follow the rules for the account. You can contribute to a Roth IRA if you have earned income and your modified adjusted gross income is $95,000 or less ($150,000 or less for married couples). The maximum contribution phases out, becoming zero at $110,000 ($160,000 for married couples). In either type of account, the money grows tax-deferred, so it has a chance to compound faster. And the good news is you have until April 15 of the following year to make the current year's IRA contribution. Don't forget to contribute the additional catch-up allowance (if you're 50 or older) for both qualified employer plans and IRAs (both traditional and Roth).



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Set Up a College Savings Plan

If you have children or grandchildren, consider opening and funding a Coverdell Education Savings Account and/or a 529 college savings plan on their behalf. You'll be saving for their education while realizing immediate tax benefits. A 529 plan allows you and your spouse to contribute up to $110,000 this year without incurring the gift tax (as long as you elect to treat the contribution as being made over five years). Many states also offer a current income tax deduction for all or a portion of the contribution. Money in an Education Savings Account or 529 plan can grow tax-deferred and may be withdrawn federal tax-free if used for qualified education expenses (at least through 2010 for 529 plans).

Make life less taxing with these tax-smart hints.

Give To Charity

Don't forget that you can donate appreciated securities held for more than one year to a qualified public charity. You'll receive a deduction for the full fair-market-value, up to 30 percent of your adjusted gross income in most cases, and you can carry over any unused portion for up to five-years. You will also pay no tax on capital gains. Or you can sell the depreciated securities to take the tax loss first, and then give the cash to charity. Consider a donor-advised fund—you'll get the tax break this year and then can take your time distributing the gift to the charities of your choice in the future.

For additional tips, visit www.schwab.com.

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