THE TAX PICTURE

IRAs And Other Tax Trimming Tips

(NAPSA)—Does tax season have you worried? Well, there are still ways to minimize your next tax bill. According to Diversified Investment Advisors, the steps you take now may help trim the tab for next April 15.

Ironing Out Your IRAs

If you have not already made a contribution to an Individual Retirement Account (IRA), you have until April 15 to do so for the 2002 tax year. As long as your earned income is more than $3,000, you can contribute up to $3,000 to an IRA. And thanks to the recent changes made through the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), if you are age 50 or over, you can make an additional “catch-up contribution” of up to $500 this year. If you earn more than $40,000 per year and are covered by an employer-sponsored retirement plan, you probably can’t deduct your traditional IRA contributions, but you can still contribute to an IRA on an after-tax basis and take advantage of tax-deferred growth.

Furthermore, your after-tax contributions can translate into tax-*free* growth if you opt to use the Roth IRA. Single filers earning below $95,000 and joint filers with income below $160,000 can contribute up to $3,000 to a Roth IRA this year—$3,500 if you’re eligible for the “catch-up.” Although contributions to a Roth IRA are not tax-deductible, you won’t pay taxes on any earnings on your account when you withdraw your money, as long as certain conditions are met.

Planning Ahead

Once you have decided on an IRA strategy for the 2002 tax year, start thinking about trimming your taxes in 2003 and beyond.

CATCH UP—If you are 50 or over, you can make additional catch up contributions to your IRA.

Perhaps the easiest and most effective thing you can do is increase your contribution to your employer-sponsored retirement savings plan. Boosting your contribution has the double benefit of reducing your taxable income—and therefore your current tax bill—and potentially increasing the amount of money you will have when you retire.

Keep careful track of all potential deductions such as medical expenses, charitable contributions and work-related expenses. If you have investments outside your retirement savings plan, make sure they are as tax-efficient as possible. For example, if you own a home and you have a large consumer debt such as credit card or other loans, consider taking a home equity loan to pay off that high-interest debt, since the interest on a home equity loan is usually tax-deductible. Planning ahead is the key to ensuring that you don’t pay more taxes than necessary. You may want to consult with a tax advisor to find a strategy that is most effective for you.

More information about retirement saving is available by visiting www.divinvest.com.