

TAX TOPICS

Five Easy Ways To Start Now And Lower Next Year's Tax Bill

by Alexandra Kay

(NAPSA)—Now that your taxes are filed, you're probably thinking about what you can do to fare better next year. Here are some simple steps to help you save money when tax time rolls around again:

1. Save more for retirement.

Contributions to your 401(k) or your 403(b) are funded with pre-tax dollars. This means that your taxable income for the year is reduced by the amount you contribute to your retirement account. The basic maximum contribution to a 401(k) or a 403(b) for 2005 is \$14,000.

2. Open a Health Savings Account. These allow you to pay for health care expenses and services not covered under your health insurance with pre-tax dollars. You can contribute dollars equal to your insurance deductible up to \$5,250 for a family, lowering your taxable income for the year. The tax savings? \$787 for a married couple with two kids and a \$60,000 annual income. Money you don't use grows in an interest-bearing account and can be withdrawn tax free for medical expenses whenever needed.

Log onto www.eHealthInsurance.com where you can find more information and choose a qualifying health insurance plan and a HSA banking provider. Get started now because your contribution is tied to the length of time your account has been open for the year.

3. Help others. Make donations throughout the year and lower your tax burden next April. For example, if you're in the 25



percent tax bracket and donate \$1,000 worth of items, you'll save \$250 on your taxes. It's easy! So clean out your closets now and take those unwanted items to a thrift store. But make sure you get a receipt so your accountant knows how much you can deduct.

4. Keep your receipts. Medical and dental expenses not covered by your health insurance plan are deductible as long as they total at least 7.5 percent of your income. Job-hunting expenses, including travel costs like parking or gas, printing and long-distance calls made to find a new job, are also deductible.

5. Track college expenses. Taxpayers with children in college are entitled to up to a \$1,500 tax credit for college expenses depending on the family's income for the year. Log onto www.irs.gov and find IRS Publication 970 (Tax Benefits for Education) for more information.

Alexandra Kay is a freelance writer who has written hundreds of personal finance articles.



Note to Editors: Fourth in a series of articles by financial expert Ellie Kay.