20 TAX TIPS

for

Individuals

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One of the largest expenses you have is the income tax you pay. A willingness to pay your fair share is a healthy attitude, but if you continually pay more than your required share, you diminish your ability to build your wealth to accomplish important financial goals.

The only effective way to cut your taxes is to do regular tax planning. Always consider the tax consequences of any transaction before the fact; seek professional assistance any time dollar amounts are material.

1. **Review your deductions as the end of the year approaches.** If you're close to the cutoff point between itemizing or taking the standard deduction, consider the advantage of bunching your deductible expenses every other year. You can then alternate between itemizing one year and taking the standard deduction the next, saving tax dollars by doing so. Bunching means accelerating or delaying payment of deductible items, such as property taxes, medical expenses, and gifts to charity, to have the bulk fall in the itemizing years. Be sure your planning in this area takes into account the limitation on itemized deductions for higher-income taxpayers.

2. **Rollover pension distributions.** If you receive a lump-sum distribution from a qualified retirement plan, consider deferring taxation on the distribution by rolling it into an IRA or other qualified plan within 60 days.

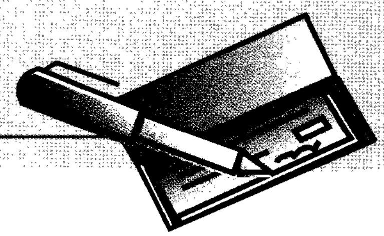
3. **If you borrow money,** structure the loan with deductibility of the interest in mind. Business interest is fully deductible. Home mortgage and investment interest are deductible within limits. Personal interest is not deductible.

4. **Maximize medical expense deductions.** If you claim a dependency exemption for an elderly parent under a "multiple support agreement," you can include in your medical expense deduction the amount of medical expenses actually paid by you on behalf of your parent. In this situation, let others pay nondeductible expenses and you pay the deductible medical expenses.

5. **Get an early refund for a disaster.** If your area is ever declared a disaster area as a result of a flood, tornado, hurricane, or the like, be aware that you have a tax election that may cut your taxes. You may take your disaster loss in your choice of two tax years: (1) the year immediately prior to the year of the disaster or (2) the year in which the disaster actually occurred. If you choose the prior year, you file an amended return for that year. The tax refund you receive may assist you in paying expenses resulting from the disaster.

6. **If you're saving for a child's college education, do so in a tax-advantaged way.** Look at all the available options and choose what is likely to give you the most money for college at the least tax cost. Among the choices to investigate are Section 529 plans, education savings accounts, and education savings bonds.

7. **Invest to take advantage of lower long-term capital gains tax rates.** You can cut your tax bill significantly by holding an appre-



ciated investment long enough to qualify for long-term rather than short-term tax treatment.

8. **Maximize dependency deductions.** If you are helping to support an elderly parent, your college-age child, or others, know the requirements that will give you a dependency exemption. Don't let poor planning or paying for the wrong expenses cost you a tax-cutting dependency exemption.

   Be aware that you cannot claim an exemption for a child 24 years or older who is a full-time student unless that child's income for the year is less than the personal exemption amount. Also be aware that dependency exemptions are phased out for higher-income taxpayers.

9. **Don't aggravate your tax bill with penalty charges.** If you are required to make estimated tax payments, be certain that you are paying the minimum required. In most cases, that's 100% of your prior year's tax liability.

10. **Find out what requirements you must meet** to be able to sell your home without paying tax on up to $500,000 of profit if you are married, $250,000 if you're single.

11. **Keep good records on home improvements.** Your personal residence is one of your major assets, and when you sell it, profit exceeding the $250,000/$500,000 exclusion amount will be taxable. Home improvements add to your basis (cost) and will decrease the amount of gain on any sale, thereby decreasing any taxes you might owe.

12. **Take a tax deduction for bad debts.** If you loaned money and it's beginning to look as though the loan is uncollectible, take steps to provide evidence of your attempts to collect. These steps will substantiate a bad debt deduction on your tax return.

13. **Give appreciated property to charity rather than cash.** You'll generally get a charitable deduction for the property's market value without having to pay capital gain tax on the appreciation. Get details before you give, however, because other restrictions could apply.

14. **Sell an option instead of the property.** If you are selling property but want no more income in the current year, consider selling an option to purchase. The amount you receive for the option will be taxable in the year the option is exercised rather than in the current year.

15. **Give away income-producing assets** that you don't need now and won't need in the future. You can give away a limited amount to individuals every year without paying any federal gift tax. You then remove that income-producing asset from your estate, and you remove the income the asset would earn from your tax return, lowering both your estate and income taxes.

    If you give an asset to an individual, you do not get a tax deduction for the gift. Only gifts to charitable, educational, and other IRS-approved institutions qualify for a tax deduction on your tax return.

Minimize

16. Consider tax-exempt investments as a means of cutting your income tax. There is an easy way to compare the yield on tax-exempt investments (such as municipal bonds) with the after-tax yield from taxable investments. Subtract your top tax bracket from 100 and divide the tax-exempt interest rate by that number. The result is the equivalent taxable return.

Before investing, consider other tax factors. For example, if you borrow money to buy tax-exempt investments, the interest on the loan is not deductible.

17. Always keep track of expenses that you may be able to deduct. Deductible expenses include such items as:

- Interest paid on mortgages on first and second residences; $1 million loan limit.
- Interest on home-equity loans where available; $100,000 loan limit.
- State income and property tax.
- Qualifying moving expenses.
- Miscellaneous deductions that exceed 2% of adjusted gross income (e.g., union dues, professional publications, tax preparation fees, work tools, and uniforms).
- Charitable contributions.
- Certain higher education expenses.
- Casualty and theft losses over $100 and in excess of 10% of your adjusted gross income (AGI).
- Medical expenses in excess of 7 1/2% of AGI.

18. Consider contributing to an IRA if you qualify. The gradual increases in the annual contribution limit make the IRA an even more attractive way to cut taxes and save for retirement. Use a traditional IRA if you want to get a current tax deduction and defer taxes on growth in your IRA until you withdraw funds at retirement. Use a Roth IRA if you don't want a tax deduction for your contributions, but you do want tax-free growth and tax-free distributions at retirement.

19. Watch out for the marriage penalty. If wedding bells are in your future, beware of the marriage penalty. This is a feature in the tax law that causes some married couples to pay more tax than two singles earning the same amount of income. In some cases the marriage penalty is unavoidable, but in other cases a little advance planning can save a sizable amount of tax. While the 2001 tax law eventually eases the marriage penalty, it by no means eliminates it.

20. Use your tax advisor wisely. We can best serve you by assisting you in carefully planning your important financial moves so they're structured to minimize taxes. Please check proposed transactions with us before you complete them.