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Top Ten Tax Tips for 2012 (part 1)

With the coming new year comes tax season again. Don't wait till just before the April 15 deadline to plan your taxes. The time to take action is now. Here are some invaluable advice on how to plan your taxes for next year so that you pay not more than you should.

1. Make charitable donations

If you contribute to charity before December 31 this year, your contributions will count towards this year's taxes. Besides gifts of cash and kind, you can also contribute stocks that have performed well this year. By contributing the stocks, you will not be taxed on your gains. You can also go the conventional route by contributing in cash. If you charge your contribution to your credit card, your contribution is counted as this year's expenses even though you only pay towards your credit card next year. Checks issued this year also count. But you have to make all your contributions by December 31 this year.

2. Contribute more towards your IRA

If you have an Individual Retirement Account (IRA) like a 401(k) or 403(b), you can choose to contribute towards your account up to a maximum limit. Check your withholding and see if you are already contributing to the maximum. If not, you can increase your withholding and contribute as much as you can towards the maximum allowed. By doing so, you increase the deductible amount from your taxable income and you pay less for this year's taxes.

If you do not have a retirement account, there is still time to set one up because some types of accounts can be set up by December 31 whereas others can be created by April.

3. Work from home

If you are an independent business owner of some sort, you may want to consider moving your operations to your own house. If you have a room or section of your house that is used as your permanent place of business, you can deduct 10% of the expenses such as rental, utilities and housekeeping expenses from your taxable income. And you do not necessarily have to meet clients at your home office, either. For example, you may be a plumber or electrician that makes house calls.

4. Claim Energy-saving credits

If you improve your home by installing energy-saving materials such as better insulation, windows or heating, you can claim a Nonbusiness Energy Property credit for 10% of the cost of such materials (installation costs may not count) up to a \$500 lifetime maximum. If you install only windows, the limit is \$200.

If you install certain alternative energy producing equipment such as geothermal heat pumps, solar panels and wind turbines, you are entitled to claim 30% of its costs under the Residential Energy Efficient Property Credit. But be sure to check the manufacturer's tax credit certificate before making purchases of these materials and equipment.

5. Do not inflate 2012 income unnecessarily

In efforts to defer paying taxes, many taxpayers would push investment income from this year to next year while claiming deductions this year. But such a move may backfire if the tax rates increase in 2013 (which is likely). Tax rates on long-term capital gains and qualified dividends could jump from the current 15% to as high as 35%.

I will continue with another 5 tax tips in my next article tomorrow. Stay tuned.