



December 7, 2011

How to Reduce Your Taxes Next Year (part 3)

Here are the tips we have covered so far in how to reduce your taxes next year:

1. Pay no more than you should
2. Max out your 401s
3. Sell your loss making shares
4. Write off the biggest tax breaks
5. Make charitable donations
6. Make significant charitable donations
7. Make energy-efficient home improvements
8. Avoid buying mutual funds before the ex-dividend date
9. Give to your loved ones

You can give up to \$13,000 to any one of your loved ones this year and not have to pay any gift tax. You can also transfer up to \$5 million in your lifetime to any next-of-kin without having to pay estate tax. But the \$5 million lifetime exclusion from tax expires at the end of next year, unless Congress decides otherwise.

Maybe \$5 million is out of your league, but the \$13,000 gift is probably not. Suppose you want to give your son a gift for his 21st birthday. Mom and Dad could buy him a car with \$26,000 (\$13,000 from each) and it would be free from tax. The only thing you will have to do is file gift tax Form 709 to make a record of your joint gift, even though no gift tax is due. The only hitch is that the \$13,000 per person cannot be carried over to the following year. If you do not use this tax break this year, it disappears but you do get another \$13,000 next year.

10. Use up your flex plan funds

Use up your 2011 flexible spending account to avoid the "use it or lose it" rule. You just have to remember that using your flex spending account funds for certain over-the-counter drugs like ibuprofen or aspirin without a prescription from a doctor is not allowed (the exception is for insulin). But other health-related expenses that do not require a prescription such as for bandages, contact lens solutions or crutches are not subject to this rule. IRS Publication 502 shows you what items are allowed by law. The same rules on eligible purchases apply to health savings accounts.

Most employers set the deadline as March 15, 2011 to use up your 2010 funds but some employers have postponed the deadline to December 31. So ask your employer about your plan's deadline.

At this point, there is no limit to the flex amount but next year will be the last year before Congress imposes a ceiling of \$2,500 that goes into effect 2013. Therefore, at present many employers set the limit above \$2,500. So think about signing on for a larger-than-usual spending amount for 2012 with the plan of accelerating some medical expenses, such as eye laser surgery or tooth veneers.