

2nd Opinion: Time to implement year-end tax tips

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By Sherre Stephens

Think it's too early to start preparing for tax season? A recent flurry of tax legislation, as well as expiring tax credits and deductions that Congress may retroactively extend at year's end call for early preparation despite a later filing date in 2007—April 18.

Here are five basic things you need to know:

Get organized. Start now and use a checklist. Checklists facilitate organization and minimize frustration. Many checklists are available on the Internet. Just search for "checklists for tax preparation."

Identify last-minute savings opportunities.

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- Maximize retirement plan elective deferrals. The basic deferral limit is \$15,000 (\$20,000 for age 50 or older).
 - Contribute to a traditional IRA. The limit for taxpayers younger than age 70 1/2 with sufficient income is \$4,000 (\$5,000 for age 50 or older). Consider an IRA for the nonworking spouse. To qualify, the couple must be legally married at year's end and file a joint tax return.

- Coordinate capital gains and losses. Review stock and other capital assets. Are some ripe for sale? Such tax harvesting can offset gains with losses thereby lowering taxable net gains.

Make the most of tax deductions.

- Itemize deductions. The list of possible deductions is myriad, and some impose thresholds in order to take the deduction.

- Make a direct transfer from an IRA to a qualified charity. Taxpayers age 70 1/2 and older may transfer up to \$100,000 to a qualified charity tax-free. The transaction must go directly from an IRA to the charity. Don't wait until the last minute. Many IRA providers have cut-off dates for year-end transactions—some as early as Dec. 15.

- Donate clothing and household items. Contributions of clothing and household items made after Aug. 17, 2006, are not deductible unless the property is in good used condition or better.

Take advantage of tax credits. A tax credit reduces tax, whereas a deduction reduces the amount of taxable income.

- Child Tax Credit. This credit can reduce taxes up to \$1,000 for each qualifying child. For more information, see [IRS Tax Tip 2006-45](#).

- Retirement Savings Contributions Credit. Taxpayers eligible to contribute to an employer-sponsored retirement plan or an IRA may qualify for this credit (up to \$1,000, or \$2,000 if filing jointly). See [IRS Tax Tip 2006-49](#).

- Hybrid Car Tax Credit. The credit, \$400 to \$3,400, is available for qualifying vehicles purchased after Dec. 31, 2005.

- Qualifying Alternative Fuel Vehicles. Purchase of an AFV between Jan. 1, 2005 and Dec. 31, 2010 may yield a tax credit of up to \$4,000.

- Home Energy Efficiency Improvement Tax Credits. Purchase and installation of energy-efficient products qualify for a tax credit of up to \$500. Additional credit is available for some other qualified purchases and applies only to the taxpayer's principal U.S. residence. The total credit caps at \$2,000.
- Earned Income Tax Credit. Generally available to taxpayers with 2006 earned income under \$38,348, the EITC may also provide a refund.

Know where to go for help. The IRS website, www.irs.gov, offers a number of fact sheets, tax tips and a toll-free help number. The Internet offers copious tax helps, but use caution, since some tips may or may not be reliable.

Tax preparation software and services are viable resources.

Sherre Stephens is a certified employee benefits specialist and director of executive and institutional benefit design for GuideStone Financial Resources of the Southern Baptist Convention. This educational information is not intended as legal or tax advice. Individuals with legal or tax questions should consult a legal or tax adviser who can provide specific information to the unique situation.

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