



Dear Mr. Tax Man

By Jacob Ansel

THERE ARE A FEW TAX QUESTIONS I

get asked repeatedly. Three in particular stand out which are addressed in this issue, plenty of time before taxes are due.

Where does all the money go?

I earn a nice annual salary yet my net check feels like a fraction of my real salary. Where is all the money going? Why does the government take such a big bite? The answer is a fairly simple one once you understand a thing or two about taxes. The annual salary is the gross paycheck, what you bring home is what you net, and the difference is the withholding. The withholding is what upsets an awful lot of people. Withholding includes federal taxes, Social Security, Medicare, state taxes, unemployment, and disability. Federal tax is withheld to cover an earner's yearly tax liability. If you withhold too much, you get a refund; not enough, and you owe taxes. Social Security and Medicare are mandatory, non-negotiable taxes and deducted from gross payroll at a rate of 5.65%, combined with certain limitations. Different states have different tax rates. The other taxes withheld from the weekly paycheck are a small percentage of gross income. It's a safe bet that withheld taxes consume between 27 and 31% of each paycheck. If your taxes are higher, it's a good idea to check it out.

How do I go about giving tax deductible gifts to my kids?

I want to give monetary gifts to my

A key way to reduce taxes is to avoid early withdrawals from an IRA or 401(k) plan. The amount you withdraw becomes part of taxable income, and on top of that there are additional taxes to pay on the early withdrawal.

children each year. How much can I give each and what's the best way to give them? Are there tax ramifications? Giving gifts to children annually is a great tax planning tool that reduces estate taxes, gets money out of your taxable estate, and when done correctly can yield great results. The current rule is that each parent can gift \$13,000 to each child during the tax year. There are no tax filing requirements as long as the amount is below the limited amount. Simply write a check to the child and deposit it into a bank account, investment account, or any type of fund. The money is also tax free to the child. This rule, however, doesn't apply to college or educational expenses which is not considered a gift.

How do I reduce my taxes?

There are many techniques and tools available that you can implement prior to year-end to reduce taxes. If you own a home, consider paying the first quarter 2012 real estate tax bill before the end of 2011; this increases your 2011 deductions. You can also ask your employer to hold off on paying any bonuses in 2011

and pay it in 2012 instead; this reduces the tax base of your gross income during the current year and pushes off the burden until 2012. Deferring taxes year to year is an acceptable method of reducing taxes in the current year.

Do you plan on giving any charitable donations of money, stock, or clothing? Make sure that you give the donation early enough in 2011 to receive the tax benefit, and get the proper receipts and documentation showing that you actually gave the gift. A common mistake is taking a blank receipt that says you gave ten bags of clothing. Instead write down what was in each bag, take pictures of the items, and attach this to your receipt so you document the donations given.

Review capital gains and losses with your broker prior to December. If you have capital gains, sell off some non-performing stocks at a loss to reduce net capital gains. If you don't review your investment account before the end of the year, you could end up with some big tax consequences.

Tax credits can also help reduce your tax. There are tax credits for college expenses, saving for retirement, and for adopting children. Not everyone is in a position to adopt a child, but everyone could take some college classes. There are two education-related tax credits. The American Opportunity Credit is for students in their first four years of college, up to \$2,500. The Lifetime Learning Credit is for anyone taking college classes, up to \$2,000. The classes don't have to be related to your career.

I'm happy to take any questions you might have. Drop me an e-mail at jacob@tablewaretoday.com. □

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