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WHAT YOU CAN GIVE AWAY, TAX-FREE

By Anil Melwani, C.P.A.

Who wouldn't want to pay less taxes? There are several things you can do to legally reduce the taxes you pay.

The tax code outlines tax brackets that increase as more income is earned in efforts to shift the tax burden on the more affluent. As your income increases and you rise up the tax bracket, each additional dollar in the new bracket is taxed at a greater rate. If you know which tax bracket your income is located within you may be able take advantage of this knowledge.

Each year, you can give up to $13,000 away tax-free to each person you choose. This is typically for retirees with significant assets who want to gift money now rather than leave what may be subject to estate taxes later. You may also use this exclusion to pass income to your children.

Maximize your tax deferred retirement savings. By doing so you're assuming that your personal income will be lower when you withdraw the money, especially if there are a number of years until you start taking distributions. The tax laws will likely change many times over between now and then, hopefully in your favor.

Keep track of your business related expenses by keeping receipts in a safe place, and notes or a log of what each expense was for. Expenses for trips taken primarily for business purposes can be deducted, even if some vacation time is spent while on the trip. Travel expenses that are undoubtedly for vacation are not deductible. If you use your vehicle in your trade or business, keep a log of each business related trip.

The Unemployment Tax breaks ended in 2010 and taxpayers are no longer allowed to exclude the first $2,400 of benefits from their taxable income. To avoid heavy taxes on unemployment income when you file your return, be sure to elect both federal and state withholding from your weekly benefits.

Even though taxpayers who are required to file a return can file for an automatic six month extension, tax payments are still due by the tax deadline. If a tax liability is owed to the Federal and/or state government, interest is due on any amount not paid by April 18th. A late payment penalty is also assessed on any taxes not paid by the deadline if the outstanding amount is more than 10 percent of the total tax obligation. The penalties and interest can be as much 25 percent of the total unpaid liability. It is usually advantageous to submit estimated tax payments prior to April 18th even if filing for an extension to avoid possible penalties and interest.

An extension of time to file your tax return is also not valid if it does not show an accurate estimate of your tax liability. The tax liability should be based upon all the facts and information that a taxpayer has at the time that you filed the tax extension. If the estimate of tax due is later found by the IRS to be incorrect, the tax extension will be revoked and you may be subject to the late filing penalties mentioned above.

These are only a few amongst many means to lower your tax burden. Taxpayers usually save themselves significant amounts of money by consulting with a C.P.A. on a regular basis.

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