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Before You Ring In 2006, Remember These Tax Tips

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DURHAM, N.H. – As the new year approaches, taxpayers may want to consider several strategies to help ease their tax burden and make April 15 less of a day of doom and gloom.

John Colliander, adjunct professor in accounting and an expert on taxation at UNH's Whittemore School of Business and Economics, suggests taxpayers consider several strategies.

Capital Gains and Losses

Perhaps the most relevant year-end tax strategy relates to capital gains and losses. Net capital losses are only deductible up to \$3,000, but taking capital losses on underperforming investments can be used in full to offset capital gains the taxpayer may have realized during the year. Conversely, if the taxpayer has realized capital losses in excess of \$3,000, he or she might consider cashing in on some capital gains, which can be absorbed against these excess capital losses.

Coverdell Education Savings Accounts

Year-end is a good time to review Coverdell Education Savings Accounts (formerly education IRAs). "Annual nondeductible contributions are limited (\$2,000 for 2005) so if you miss a year, it is gone," Colliander says.

IRA Contributions

The contribution limits for 2005 is \$4,000 for both a Roth and traditional IRA, with an additional \$500 catch up contribution for taxpayers at least 50 years old. However, these contributions are not year-end sensitive in that contributions for 2005 may be made as late as April 15, 2006. Certain income phase out limits apply which may limit or eliminate an individual's ability to contribute to these plans.

Deferring Income or Accelerating Expenses

Deferring income or accelerating expenses (e.g. charitable contributions, prepayment of state taxes, etc.) is always a strategy, but it is important to compare 2005 marginal tax brackets with anticipated 2006 marginal tax brackets. "For example, an individual who expects to retire in 2006 may want to double up his/her contributions in 2005 when he is in a higher bracket. The converse is also true: low income earners (e.g. students who expect big jobs in 2006) who do not itemize may want to defer contributions and other deductible expenses until 2006 if they expect to earn more and can possibly itemize their deductions. You get no benefit from otherwise itemized deductions if you take the standard deduction," Colliander says.

The Katrina Emergency Tax Relief Act of 2005

The Katrina Emergency Tax Relief Act of 2005 removes the 50 percent of Adjusted Gross Income (AGI) limit on charitable contributions to Katrina victims, and raises that limit to 100 percent of Adjusted Gross Income.

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