



Midyear Tax-Saving Time

△Wages △IRAs △Investments △Gifts



A midyear tax checkup can pay off when you file your 2005 tax return...and for years to come as well. Below are some valuable tips on various types of investments you may have.

△ Adjust your wage withholding now if...

- Your personal situation has changed—you have gotten married or divorced, had a child, etc.
- You have *more*—or *fewer*—deductions than you had in past years, such as mortgage interest or medical expenses.
- You have non-wage income—such as dividends, interest or capital gains from investments.

To make withholding changes, obtain a new W-4 form from your employer and return it—with the changes—to the employer.

Useful: A new interactive *Withholding Calculator* is available on the IRS Web site, www.irs.gov. Click on “Individuals” and then “withholding calculator”.

△ **Monitor investments.** In order to make last-minute moves at year-end to offset gains and losses, you'll need an accurate picture of your investment results *to date*.

Best: Whenever you buy a stock invest in a mutual fund or reinvest dividends, record the date and price paid for the transaction. When you sell, you can select the shares that produce the best tax

△ **Fund Roth IRAs for children.** A child with income from a summer or part-time job is eligible to put up to \$4,000 in a Roth IRA for 2005.

The money then compounds tax free for the child's whole life. The earnings ultimately can be withdrawn tax free...and the annual contributions can be withdrawn tax free at any time.

A child's IRA can be funded with money received as a gift—enabling the child to save all of his/her earned income.

△ **Maximize your retirement account contributions.** The contribution limit for 401(k) plans 2005 is in \$14,000 plus \$4,000 if over 50 for 2005. If you are eligible, make maximum use of IRAs, Keogh plans or other tax-favored plans, too.

△ **Make gifts to children and grandchildren age 14 and older** to reduce family income taxes and future estate taxes.

Example: To pay a child's education costs, give the stock to the child and have him sell it. Gains will be taxed at the child's lower tax rate.

You can make tax-free gifts of up to \$11,000 to any recipient each year.

Special opportunity: Payments that are made on another person's behalf directly to an educational or medical institution are exempt from gift tax. Therefore, you can pay a child's tuition or medical bills *in addition* to making the direct gift.

△ **Updated IRA beneficiaries.** Beneficiary designations become obsolete as years pass and family circumstances change... banks, mutual funds and other trustees sometimes lose designations.

Opportunity: new, liberal IRS rulings create new designation-planning opportunities—so consult an IRA expert.

Warning: After age 70½, beneficiary designations can be changed, but you must use the age of the oldest beneficiary as the required beginning date for IRA payouts to *all* beneficiaries.

△ **Update your estate plan.** There have been many changes in the federal estate tax law in the last few years that create new estate-tax-saving opportunities. Ask an expert estate attorney for details.

△ **Rent out your home** or your vacation home for fewer than 15 days. The income is totally tax free—and you don't even have to report it to the IRS.