KeySolutions

Employee Assistance Program

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Seven Steps to Lower Your Taxes

We've all heard that death and taxes are inevitable. Well, death may be inevitable, but taxes are not. With some tax planning, you can owe less money to the IRS at the end of the year.

Here's a quick look at seven steps you can take to reduce your taxable income and the taxes you will owe. These are basic tax-saving strategies that every taxpayer should know. They don't involve offshore bank accounts or convoluted tax shelters. These tax planing devices are easy to understand and put to use, and are most likely to save you, the average taxpayer, money.

Step 1: Earn Tax-Free Income. Certain types of income aren't subject to income tax at all. The single best way to avoid taxes is to earn as much tax-free income as possible. There are many ways to do this. Some of the most common are selling your home (the home sale tax exclusion), saving money for your children's education, investing in municipal bonds, contributing to a health savings account, receiving health insurance and certain other employee benefits from you employer, spending some of your salary on out-of-pocket health costs and giving some investments to your children.

Step 2: Take Advantage of Tax Credits. Obtaining a tax credit is the next best thing to paying no taxes at all because it reduces your taxes dollar for dollar, something a deduction does not do. Congress has taken a great liking to tax credits in recent years and is adding new credits all the time. Some examples include tax credits for buying a hybrid car or making certain home energy improvements, such as adding insulation or a solar water heater to your home. There are also child and child care tax credits and education tax credits.

Step 3: Defer Taxes. You'll have to pay income tax on your taxable income sooner or later, but you'll usually be better off if you make it later. Deferring payment of taxes to a future year is like getting a free loan from the government. There are many ways to do this, from postponing an employer bonus to investing in IRA's and other retirement accounts.

Step 4: Maximize Your Tax Deductions. Perhaps the most well-known way to reduce taxable income is to take tax deductions. The more deductions you have, the less tax you'll pay. People in business can deduct all their business expenses, such as inventory, office or home office, travel operating costs, and so on. Every taxpayer is entitled to take a standard deduction or to itemize their deduction. Itemized deductions are usually personal in nature and include things like your home mortgage interest, property taxes, charitable contributions and state income tax. There are many ways you can increase your business or personal itemized tax deductions.

Step 5: Reduce Your Tax Rate. Federal income tax rates can vary dramatically, from as low as 5% to as high as 35%. You can benefit from the lowest rates available if you earn income from investments like stocks, bonds, mutual funds and real estate. The profits you earn from these investments are taxed at capital gains rates, which are right now at the lowest they have been since 1933, as low as 5%. In contrast, the average worker must pay income tax on his salary or business income at ordinary income rates, which can be as high as 35%.

Step 6: Shift Income to Others. If you're in a high tax bracket you can save substantial taxes by shifting your income to someone in a lower tax bracket, for example, your children. This process is called income shifting or income splitting. Recent changes in the tax law make this harder to do than it was in the past, but it's still a viable planning tool for many taxpayers.

Step 7: Take Advantage of Your Filing Status and Tax Exemptions. Few people give much thought to their tax filing status, but it can have a big effect on the taxes you pay. Which filing status you choose (and taxpayers often have a choice) will determine the tax bracket you fall in. Your filing status is also crucial for calculating your standard deduction, personal exemptions and income levels for phase-outs of your itemized deductions and personal exemptions. It's also important to know about tax exemptions and which ones you are entitled to take. There are personal exemptions for you and your spouse and dependent exemptions for children and other family members. Not everyone can take advantage of tax exemptions because they are subject to income restrictions.

You owe it to yourself to learn these basics about tax planning and how they can help you. The sooner you start to take advantage of these tax saving strategies, the better off you will be at tax time. Then you can rest assured that you are not one of the many people paying too much money to the IRS.

Things You Should Know About Your 401k

Imagine walking into your local car dealership and spotting a vehicle you'd like to buy, but there's no sticker price on the car, and the salesman insists he can't tell you what it might cost. A lot of different expenses go into car production, he explains, making it impossible to come up with a price for an individual vehicle. He suggests you sign over your paycheck so the dealership can deduct an as-yet-undertermined amount for the monthly payment, insurance, commissions and various add-ons. Whatever is left will be deposited in your checking account. Would you accept such a deal? Yet that's essentially what's been happening with your 401k.

Fees are a part of all 401ks. Employers may not know how much their workers are paying in fees. Here is an example of how higher fees can reduce a 401k balance over a working lifetime. The example assumes that the worker contributes $5,000/year for 40 years and that the underlying investments return a 7% average return.

Annual Fee	Total Nest Egg
0.5%	$878,159
1%	$773,809
2%	$603.998
3%	$475,127

Investment companies are now required to make disclosures to employers so that you will get yearly cost summary. These summaries aren't personalized, but you will be able to have an idea of your plan costs. In these summaries you should see:

- What each investment option in your plan costs you (the "total annual operating expenses") expressed as both a percentage and as a dollar amount for each $1,000 invested.
- A list of fees for administrative services that are charged to or deducted from individual accounts, such as fees for legal, accounting and record keeping services.
- An explanation of any fees and expenses that you may incur based on actions you take, such as fees for trading, plan loans, hardship withdrawals or processing divorce decrees to split assets.
- Performance data that can help you compare each investment option against an appropriate benchmark.

The next important thing to do is to take a good look at the 401k disclosure forms. If you're seeing total annual costs for an investment option that exceed 1%, you should do a little digging. If your plan's option is significantly more expensive, or if the total expenses on any option top 2%, it's time to act. You can:

1. **Put your money in cheaper options, for now.** The Department of Labor warns that "cheaper isn't always better". Low-cost index funds, exchange-traded funds or target-date funds may be your best choices.
2. **Let your employer know you care about your costs.** Recruit your co-workers, if you can, to request lower-cost options. You also might volunteer to serve on any committee that evaluates plan providers or investment options.
3. **Suggest automatic enrollment.** Higher participation means more money in the plan, which means more clout in negotiating with providers. It may be too expensive for companies with a generous match or impractical for companies with high turnover.
4. **Enlist the top dogs.** High earners, top executives at bigger companies or the owner at smaller ones, may have contributed more than average workers to the 401k plan. If so, they may have more money at stake, and should care more than the average worker about what happens to it.
5. **Invest on your own.** You may need to take more of your retirement into your own hands by investing outside the 401k. If your company offers a match, you should contribute enough to the 401k to get the full amount. You can also contribute up to $5,000/year to an IRA or a Roth IRA ($6,000 for 50 and over.)

Edited from MSN Money article by Liz Weston "Is your 401k ripping you off?"

ATTENTION ALL EMPLOYEES:

KeySolutions EAP is available to ***all employees*** and dependent family members. You ***do not*** need to be enrolled in your employers insurance to utilize this benefit.

How KeySolutions Works for You...

Counseling Services: KeySolutions is here to **help you** and your family with any of **life's challenges**. During your appointment, you will meet with one of our experienced professionals and together decide on a **plan of action**.

Free and Confidential: Employee Assistance Program services are at **no charge** to you or your immediate family. All services will remain **confidential**.

Employees and Family: KeySolutions is available to all **employees** and **dependent family members**.

Anywhere You Live: The Employee Assistance Program is available to you wherever you live. We have a network of counselors ready to serve you. Please call KeySolutions first and we will inform you of those counselors.

Contact Us: You can visit us on the World Wide Web at ***www.keysolutionseap.com***, or email us at ***keysolutionseap@crchealth.com***.
Call us at 605-334-5850 or toll-free at 888-450-7844.