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Helping You Create Financial Independence

TIME TO PAY UNCLE SAM AGAIN

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Finance by Patricia Kummer CFP®

Income taxes are higher for 2013. Those getting ready to file for last year are probably realizing this by now. Brackets went up and some deductions went down. Investments were profitable so some brokerage 1099s reported higher taxable earnings. Payroll taxes increased and those in the highest brackets get to pay an extra 3.8 percent on investment returns. All in all, taxes are rising.

There might be a few last minute things you can do that will help reduce your tax liability.

Consider funding an IRA account. That's right, a good old fashioned traditional IRA. You have up to your tax filing date to contribute for last year. Most employees who have a 401k plan have forgotten they might also be eligible for an IRA as well. If you are Married Filing Jointly and only one spouse has a 401k plan, the other spouse may be eligible for a $5,500 deduction or $6,500 if over the age of 50.

Check the IRS limits which range for Adjusted Gross Income from $178,000 to $188,000. Those with two qualified employer plans with incomes under $95,000 can both write off the full contribution. This may be enough to reduce other factors, such as eligibility for the education tax credits.

Self-employed individuals may be eligible for a SEP (Simplified Employee Pension). These limits can be substantially higher than an IRA based on business or consulting income. Most plans allow for deductible contributions similar to 401k limits of $17,500 with an over age 50 catch up provision of another $5,500. For higher income earners, you may also be eligible for a profit sharing contribution up to 25 percent of your business profit, depending on your business structure.

It is crucial to get with your tax or financial advisor before the last week of March to see what plans and limits you are eligible for.

Consider maximizing your Health Savings Accounts for last year if they have not already been funded. You may be eligible if you had a high deductible health insurance plan starting no later than December 1st, 2013. An individual can contribute a tax-deductible amount of $3,250 with a $1,000 catch up provision for anyone over age 55 by December 31. Next, it is not too early to start tax planning for this year. Make sure you are maximizing your 401k contributions through your employer. If you are self-employed, consider establishing an

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individual 401k plan which must be set up by October this year. You may be eligible to contribute up to $52,000 depending on your income.

You can fund college savings plans that are eligible for the state income tax deduction for children or grandchildren. To help reduce unwanted taxable investment income, meet with your financial advisor and structure your investments to be tax-efficient. Also, keep track of business expenses all year long in order to maximize deductions. It will also help to plan on making estimated tax payments if needed during the year to help avoid underpayment penalties.

It is never too early to start planning for taxes. After all, the goal is to keep more of your hard-earned dollars working for you. Plan early to take advantage of every deduction you are eligible for so you never have to pay more taxes than necessary.

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Patricia Kummer has been an independent Certified Financial Planner for 28 years and is President of Kummer Financial Strategies, Inc., a Registered Investment Advisor in Highlands Ranch. Kummer Financial is a 4 year 5280 Top Advisor. Please visit www.kummerfinancial.com for more information or call the economic hotline at 303-683-5800.Any material discussed is meant for informational purposes only and not a substitute for individual advice.