

Make 2008 Less Taxing With These Year End Tips

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As the clock winds down on 2008, there's still time to save on taxes.

One way to know your tax situation is to track your income, taxable gains and deductible items during the year with a software tool such as Microsoft Money or Quicken. When you record financial transactions as they occur, you can quickly spot spending trends and determine what areas may yield tax deductions.

Here are some areas to watch:

Capital Gains and Losses -- If you were fortunate enough to have sold investments during 2008 for a gain, you'll be taxed on it. Typically, you'll pay 15 percent on your gain. But, if you also sold a losing investment during the year, your loss can minimize the taxes you owe. If losses exceed gains, the excess is subtracted from other income on your tax return, up to an annual limit of \$3,000 (or \$1,500 if you are married and filing separately).

Due to the recent election, the capital gains tax rate may increase to 20 percent or more next year. If you are in a high tax bracket, consider taking more gains in 2008, or you may pay the potential higher rate in the future. Watch out for year-end mutual fund capital gains distributions. Mutual funds must distribute their net realized capital gains each year. Many nervous investors have moved money out of stock funds to cash or cash equivalents. Even in this year of negative market returns many fund managers have had to sell stocks for gains that they may have held for years to meet fund redemption requests. Contact the mutual fund to get an estimate of the year-end distribution and consider a sale of the fund before the ex-dividend date of the

distribution.

Charitable Donations are deductible only if made to qualified organizations and you itemize deductions. For 2008, the standard deduction is \$10,900 if married and filing jointly. If your records show you should take the standard deduction, you might delay a donation till the following tax year. If you do donate now, do it before Dec. 31 to apply to 2008's tax bill. During these tough economic times, local charities such as Naperville CARES and Loaves & Fishes Food Pantry are in need of donations - consider supporting these or other charities. Many local churches also have outreach programs that directly support local Naperville residents in need.

If you donate cash, there are new record requirements. Be sure to get a receipt showing the charity name, contribution amount and the date your contribution was made.

Medical Deductions -- Medical expenses in excess of 7.5 percent of your annual adjusted gross income also will lower your tax bill. If you are close to reaching your target, try to prepay expenses for elective surgery or orthodontia. You also can deduct dental work, prescription glasses and hearing aids. Investigate your health insurance and long-term care policies to see if they also can be deducted.

Paying taxes is never fun ... but with some planning and some smart tax moves before the end of the year, you can truly make 2008 less taxing.

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