MONEY MANAGEMENT

Are You Doing All You Can To Reduce Your Taxes?

Every day that you delay tax planning can cost you plenty in overlooked tax opportunities. To find out if you are doing all you can to trim you taxes, the North Carolina Association of CPAs suggests that you review these mid-year tax tips.

Defer Income, Accelerate Deductions If...

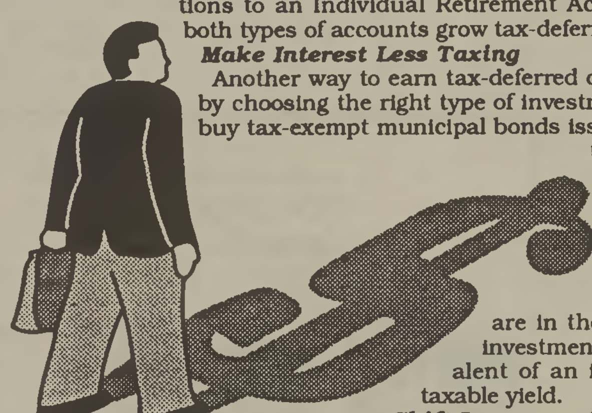
Effective tax planning begins with knowing how and when to defer income and accelerate deductions. Under this classic tax strategy, you reduce taxes by postponing income until a later year. At the same time, you try to offset current income by increasing the amount of deductions you can claim right away. **This tax strategy works best when you expect federal income tax rates or your personal tax bracket to remain the same or decrease in a subsequent year.**

If you decide that deferring income will work for you this year, you may want to ask your employer to delay a year-end bonus or commissions until after December 31, 1990. Another option is to defer interest income by buying short-term government securities or certificates of deposit that mature sometime next year.

On the other hand, CPAs point out that if you expect tax rates or your personal income to increase in 1991, you may reap greater tax benefits by accelerating income and deferring deductions to next year, when they may be more valuable.

Contribute To A 401 (k)

In 1990, you can contribute up to $7,979 to a 401 (k) plan. Whatever amount you deposit automatically reduces the amount of income on which you are taxed. If your employer doesn't offer a 401(k), find out if you can still deduct your contributions to an Individual Retirement Account (IRA). Earnings on both types of accounts grow tax-deferred.



Make Interest Less Taxing

Another way to earn tax-deferred or even tax-free interest is by choosing the right type of investment. For example, if you buy tax-exempt municipal bonds issued in your state, the interest will be free from federal and state income taxes. Other tax-advantaged investments include U.S. EE Savings Bonds and treasuries. Keep in mind that if you are in the 28% bracket, a tax-free investment earning 7% is the equivalent of an investment with a 9.72% taxable yield.

Shift Income and Save

You may be able to save taxes and build college funds for your children by transferring assets into their names. Any interest and dividends earned by a child age 14 or older are taxed at the child's rate, usually 15 percent. For children under age 14, the first $500 of unearned income is tax-free, the next $500 is taxed at their lower rate, and unearned income in excess of $1,000 is taxed at the parent's highest marginal rate.

Reduce Consumer Loans

Credit costs more than ever. This year, you can deduct only 10 percent of the interest charged on personal loans, credit card accounts, or unpaid tax bills. Next year, the deduction will disappear completely.

To eliminate you consumer debt, consider liquidating some of your investments. You can then borrow funds to finance other investments. Keep in mind that interest on investment loans is fully deductible up to the amount of your net investment income. In1990, you can also deduct up to 10 percent or $1,000 of the interest in excess of your net investment income. Alternately, you can use the proceeds of a home equity loan to pay off your person debt. Remember, you can still deduct interest on home equity loans of up to $100,000.

Make Your Age Work For You

Your age may be the key to unlocking the profits in your home. If you are at least age 55 and meet certain ownership and use requirements, you can exclude from taxable income up to $125,000 of the profit realized from selling your principal home. Note that this exclusion-of-gain provision is available only once in a lifetime per person or couple. So, if you plan to marry and you have not yet claimed the exclusion, find out whether your prospective spouse has. Otherwise, you may end up carelessly forfeiting this valuable tax break.

Offset Rental Income

If you expect your rental property to generate taxable income, you may want to accelerate or increase some of your allowable operating expenses, such as repairs, advertising costs, fire and liability insurance, and even maid service. Keep in mind that taxpayers with an adjusted gross income (AGI) of $100,000 or less can still deduct up to $25,000 in passive losses, including those associated with a rental property that they actively manage. For owners with AGIs over $100,000, the $25,000 active rental loss allowance is reduced by 50 cents for every dollar of income. Once an owner's AGI exceeds $150,000, the allowance is totally phased out.

Donate To Charity

If you itemize, charitable contributions remain deductible. And there's a bonus if you donate appreciated property: you can deduct the full value of the asset and avoid paying tax on its appreciation at the same time. (But be warned, such gifts may make you vulnerable to the Alternative Minimum Tax.) In addition to gifts of property, you can deduct expenses associated with volunteer activities, including transportation costs.

Check Your Withholding

Make sure that you are withholding enough tax from your paychecks. This year, if you fail to set aside at least as much tax as you owed in 1989, or at least 90 percent of your 1990 tax liability, you will be hit with a penalty on the underpayment. If your withholding is way off the mark, CPAs advise you to update your W-4 right away.