



"Giving" Advice

Inspiring and Connecting Thoughtful Giving



This Tax-Planning Season, Focus on Basic Principles

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Tax planning is even tougher when Congress is involved. The survival of various tax cuts and deductions, especially the break on capital gains and dividends, is up in the air for coming years.

U.S. Sen. Charles Grassley, R-Iowa, chairman of the powerful Senate Finance Committee, had to yank a \$70 billion, five-year tax bill from a committee vote last week because he couldn't gather enough Republican support to extend President Bush's tax break on capital gains and dividends.

Mr. Grassley and most other Republicans want to pass a bill this year that would extend the 15 percent tax rate to 2010 from 2008, when it's set to expire. Mr. Grassley has proposed a one-year extension as a compromise.

The dividend and capital gains rates are part of a bill that would extend a slew of tax incentives, such as a research and development credit for businesses, incentives for low-income Americans to save for retirement, and a plan to encourage companies to hire low-skill workers.

The bill also would extend for one year a patch to prevent millions of middle-class Americans from being ensnared by the cumbersome alternative minimum tax.

There's also been discussion about extending the state sales tax deduction, which Texans began enjoying only last year. Otherwise, that deduction is scheduled to expire after this year.



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ABOUT YOUR FOUNDATION

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to

maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

"It is very much up in the air now whether they'll get an agreement on something and get it passed," says Mark Luscombe, tax analyst at CCH Inc., which publishes tax information for tax professionals. "We aren't sure what will be in there" for 2006.

All that uncertainty for future years makes this a back-to-basics tax-planning season. Here's what to look out for:

As always, pay yourself first. Max out your contributions to retirement plans, such as a 401(k), because that enables you to benefit from tax-deferred compounding of your money.

It's especially important to participate if your employer matches your contribution, because that's essentially free money to you.

This year's 401(k) contribution limit is \$14,000, which must be made by Dec. 31. If you're turning 50 or older before the end of the year, you may be eligible to contribute an extra \$4,000.

"It may already be too late to adjust your withholding for 2005, unless you're expecting a big year-end bonus, but keep in mind the limits go up to \$15,000 and \$5,000, respectively, for 2006," says Rande Spiegelman, vice president of financial planning at the Charles Schwab Center for Investment Research.

Putting money in a defined-contribution plan not only builds up your savings, it also reduces your tax bill because the money is taken out pretax.

If you can, be sure to make your annual contribution to an Individual Retirement Account, as well.

You may set aside up to \$4,000 for this year, while people 50 years old and older may put in up to \$4,500.

Make adjustments. See if you need to rebalance your portfolio to bring your allocations back in line with your risk tolerance and goals.

That may include selling some investments. If you have losses in your taxable investment accounts, consider selling them to offset any gains. You have until Dec. 31.

If your capital losses exceed your capital gains, you can deduct only up to \$3,000 of those losses a year against ordinary income. Any excess can be carried over.

"Also use retirement accounts to help bring your portfolio back into balance without incurring a tax hit," Mr. Spiegelman says. "If you're overweight in stocks but have no loss candidates in taxable accounts, you could bring your allocation back in line by selling stocks in your tax-

advantaged accounts."

But don't let tax considerations be your primary factor in deciding whether to unload an investment.

Take a break. Unless Congress extends it, this is your last chance to deduct sales taxes because the tax break expires this year.

You must itemize your deductions to get this break. The law lets taxpayers choose between deducting their state income taxes or their state and local sales taxes. Texas doesn't have a state income tax.

You can add up all your receipts or use the standard tables in IRS Publication 600, Optional State Sales Tax Tables, which provide an average deduction based on your income and number of dependents.

You may also add to the table amount the sales tax for certain items, such as cars, boats or home-building materials. Read the IRS instructions carefully to be sure.

Charitable donations are getting a boost this year, thanks to Hurricane Katrina.

Congress passed a law that affects the deduction limit on cash contributions to charities by taxpayers who itemize. It essentially eliminated the deduction limit on cash gifts made to most public charities after Aug. 27, 2005, and before Jan. 1, 2006, so you may be able to deduct up to 100 percent of your income for your 2005 charitable contributions.

Generally, you can't deduct more than half of your adjusted gross income, but the Katrina Emergency Tax Relief Act of 2005 removed the limit.

Also Samaritans who took in evacuees sent by a charitable organization may be able to deduct the rental value and food given to their houseguests, CCH experts say.

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ILLUSTRATION(S): (MICHAEL HOGUE/Staff Illustration) TAX PLANNING

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