

Six Basic Tax Planning Techniques

There are no great secrets where tax planning and tax cutting are concerned. The principles around which all tax-cutting strategies revolve can be reduced to six basics:

- 1. Income splitting.** Taxes are reduced for the total family unit by shifting income among several family members or legal entities in order to get more of the income taxed at lower rates.
- 2. Shifting income.** Certain kinds of income (bonuses, dividends, and year-end payments, for example) can be shifted from one year to another in order to have the income fall where it will be taxed at lower rates.
- 3. Shifting deductions.** As with income, certain deductible expenses can be paid in one year or the next in order to place them where the tax benefit will be greater.
- 4. Deferring tax.** Putting your money into certain investments or making pension plan contributions allows you to defer the tax on some income until some future year.
- 5. Tax-deductible expenditures.** Certain expenses may be tax deductible if you meet specific requirements in the Tax Code. Structuring your affairs to obtain a tax deduction for things you enjoy (within stringent IRS guidelines) is an example of this tax-cutting technique.
- 6. Tax-exempt investments.** You can select investments that produce income that is exempt from either federal or state income tax, or both. Many mutual fund investments, for example, have tax advantages.

Become aware of how tax law changes are affecting you, and make adjustments necessary to lessen the impact of them on your earnings.



Let's Have a Conversation

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