Opinion: Tips for tax season

By Rick Rodgers

For most people, tax time is for worrying about getting audited and hoping for a refund that will help make ends meet.

There are more ways to save for retirement than just taking advantage of your company’s 401(k), which today is almost the equivalent of stuffing your savings in a mason jar and burying it under your porch. People need to get creative and really take advantage of all the different ways the law allows to save money now, earn more money tomorrow and have more to retire on later.

My advice for tax time this year includes:

* The average tax refund for 2009 was $3,035. If this were saved each year for 30 years, it could provide a significant part of your retirement income. Better yet, reduce your tax withholding at work by $253 per month and save the same amount monthly. Monthly compounding instead of annual compounding grows even faster.

* Do not defer your income in a 401(k) plan if you are in a 15 percent tax bracket unless your employer matches the amount you save. Save the money in a Roth IRA instead. Tax brackets will probably never be lower than they are now and there’s a good chance they will be higher. Distributions from a Roth IRA will be tax free in retirement.

* Money saved outside of a retirement account should be invested in stock mutual funds. Most of the earnings on stock funds are either in the form of qualified dividends or long term capital gains. Both types of income are taxed at zero percent in a 15 percent tax bracket and a maximum of 15 percent in higher tax brackets.

* Tax-free funds currently offer returns comparable to taxable funds. The average yield on intermediate tax-free fund was 3.6 percent in December versus an intermediate taxable fund at 3.9 percent.

* Say no to higher health insurance premiums. Start a Health Savings Account with a high deductible policy. The maximum deductible contribution is $6,150 for 2011 for families and $3,050 for single coverage. Distributions are tax free if used for medical expenses and balances can be carried over from year to year. Premiums on a high deductible health insurance policy are typically half the cost of a traditional policy.

* Taxpayers who are age 70½ with IRAs can give money directly to a charity from their IRA this year. Making charitable gifts this way keeps the taxable income off your tax return. This could lower the amount of your Social Security benefits that are subject to tax.

* If you took money out of a retirement account before age 59½, you will owe tax on the distribution but you may be able to avoid the penalty. There are six exceptions to the penalty. Find out if you qualify for any of them.

The law allows people many ways to save money, so while those filing the quick and dirty tax forms may get a quick refund, they may be shortchanging themselves in the future. There are so many more opportunities out there to stretch your retirement savings. A little research today could mean a lot less worrying about retirement later.

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