Working on tax returns makes financial sense

By Jeff Gorton

Nearly 150 million Americans will file federal income tax returns this year and, unfortunately, many will be shelling out much more of their hard-earned money than necessary.

With the ridiculous complexity of our tax code, I can understand how the average person might want to put off doing their homework, but that'll cost you.

When you think about all you do to earn your money, and the lengths we'll go to save a few bucks, it doesn't make sense to not do all we can to prepare for the inevitable – our compulsory contribution to Uncle Sam's bank account.

There is nothing unpatriotic about taking advantage of legal measures to reduce your tax bill. Most Americans, however, don't understand the basics of how to minimize the tax burden, he says.

If you wait until the last minute to do your taxes, you're sure to miss out on savings.

Here are some basic and more advanced tax-saving options.

• Credits: Tax credits are usually subtracted dollar for dollar from the actual tax liability and may be utilized when filing for 2013. They include the Child Tax Credit, which allows up to $1,000 for children younger than 17; the American Opportunity Credit, featuring up to $2,500 in tax savings per eligible student for tuition costs for four years of post-high-school education; and the Energy-Efficient Home Improvement Tax Credit, which grants qualifying taxpayers 10 percent of the cost of certain energy-efficient building

materials – up to a $500 lifetime credit. The Child and Dependent Care Credit, for those who have to pay someone to care for a child younger than 13, or another dependent, offers up to $3,000 for one qualifying individual, or up to $6,000 for two or more qualifying individuals.

• Deductions: Like tax credits, deductions have phase-out limits, so you may want to consult with a professional. Deductions are subtracted from your income before your taxes are calculated, which may reduce the amount of money on which you are taxed and, by extension, your eventual tax liability. Some examples include contributions made to qualifying charitable organizations. And, you may be able to write off out-of-pocket costs incurred while doing work for a charity. Others may include amounts set aside for retirement through a qualified retirement plan, such as an Individual Retirement Account; medical expenses exceeding 10 percent of your adjusted gross income are now deductible – expenses exceeding 7.5 percent are still deductible for those older than age 65; and, potentially, mortgage interest paid on a loan secured for your primary residence.

• Tax-favored investing: This involves tax-exempt investments and tax-deferred investments. Tax-exempt investments, which include such vehicles as municipal bonds and certain money market funds, offer a way to grow your money that's exempt from federal taxes. Municipal bonds are free of federal income tax and may be free of state and local income taxes for investors who live in the area where the bond was issued. Tax-deferred investments, on which taxes are postponed until you withdraw your money, include qualified retirement plans, such as traditional IRAs and employer-sponsored plans, as well as insurance products such as annuities and, sometimes, life insurance.

Jeff Gorton is a certified public accountant and a certified financial planner specializing in individual tax and retirement planning.