

## Year-End Tax Tips from H&R Block; Seven Rules for Saving Money

November 29, 2004 12:46 PM ET

KANSAS CITY, Mo.--(BUSINESS WIRE)--Nov. 29, 2004--With the year's end fast approaching, H&R Block (NYSE: HRB) tax professionals are reminding taxpayers that it's important to begin planning now in order to minimize the taxes you'll owe for 2004 and to build a strong financial base for 2005. The following seven tips are designed to help guide you through the sometimes-confusing ins and outs of year-end tax planning, but are well worth your time and energy.

1. Estimate your income and deductions: Assessing this year's likely income against projected 2005 earnings is the key to making wise decisions at tax time. If it looks like you'll make more in 2004 than in 2005, you may find that you're ineligible for important credits and deductions this year. Hence, the wisest course may be to defer as much income as possible into 2005.

Conversely, if you expect to make more in 2005 than in 2004, you may want to report as much as possible this year in order to minimize the taxes you'll owe in 2005. Balancing income between tax years sounds complicated, but it's really just a matter of finessing deductions and credits to work to your benefit.

2. Assess your options: If you're an employee, your ability to shift income from one year to the next may be limited. You can, however, reduce your income in 2005 by increasing the amount of pre-tax salary deferrals to your 401(k) or other employer benefit plans. This tax-free money is like giving yourself a raise.

If you want to accelerate current-year income, you may want to exercise employer-provided stock options before year-end. However, the latter approach comes with a caveat: Exercising stock options can trigger the dreaded Alternative Minimum Tax. It is therefore critical that you consult a tax professional before pulling the trigger.

If you're self-employed, you can decrease 2004 income by delaying your December invoices until January and by purchasing supplies and equipment this year instead of next. You can also set up a qualified self-employed retirement plan (SEP) and deduct the contributions. Alternatively, to increase 2004 income, you can accelerate invoices and defer expenses until 2005.

3. Consider your IRA: If you're eligible to deduct your IRA contributions, you can make traditional IRA contributions to decrease your 2004 income and you can contribute right up until April 15 to impact your 2004 return.

4. Count the cash: Consider investing in a short-term CD or a Treasury bill that matures next year if you want to shift income to 2004 and have a large amount of cash to invest.

5. Look at your withholding: Now is the time to ensure that you have enough tax withheld or have paid enough estimated tax to meet your projected obligations and -- in the case of the estimated tax -- to avoid a penalty for underpayment.

6. Examine your portfolio: If you have a large net capital gain in 2004, you might want to consider reducing your tax liability by selling some stock that will generate a loss before year-end. Offsetting a short-term capital gain can be particularly advantageous, since such gains can be taxed as high as 35 percent in 2004.

7. Think about a charitable gift: Making a charitable donation by year-end can help reduce your taxable income for 2004. Donations of clothing and household items to the Salvation Army and similar charities made before January 1, 2005, are deductible on your 2004 taxes. Unsure about how much your donation is worth? Check out DeductionPro software from H&R Block. DeductionPro assigns fair-market values to your non-cash donations and helps you maximize your tax savings.

Any financial donation you make using a credit card before year-end can be deducted on your 2004 return, even if you don't pay the bill until 2005. Donations of appreciated capital-gain type property, such as stock, can be a highly effective way to reduce tax liability.

If you have questions about year-end tax planning, talk to the professionals at H&R Block or visit our Web site at [hrblock.com](http://hrblock.com) for tax and financial information that can help you with financial decisions all year long.

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**SOURCE: H&R Block**