

## Tips for Maximizing Your Annual Deductions

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Every year around this time people begin the perpetual cycle of organizing the paperwork and receipts in anticipation of the upcoming tax cycle. Just as sure as we expect to see differences and variations in income and deductions, we can expect changes in tax planning.

One of the most important tax planning areas is the standard deduction. Many taxpayers consistently use the standard deduction or have enough expenses to itemize their deductions each year. There are also those that can benefit from alternating from year to year. Below you will find two different scenarios on taking your standard deduction.

If Nina Noplan, who is single, has \$3,000 in mortgage interest and \$3,000 in property taxes that gives her a \$6,000 itemized deduction every year. Since the standard deduction in 2007 for a single taxpayer is \$5,350 (\$5,450 for 2008) she could consider some simple tax planning techniques by shifting certain payments into the same year. With the itemized number being so close to the standard deduction it makes more sense for her to alternate taking the standard deduction one year and itemizing the next. She would then time the payment of the property taxes so that they are essentially doubled up every other year.

In 2007 Peter Planner took the standard deduction of \$5,350. Then decided to pay the 2007 property taxes after January 1, 2008 and the 2008 property taxes before year-end, he would then have two years of property tax payments to deduct in 2008. Therefore Peter would have a minimum deduction of \$9,000 (assuming everything else remains constant). By doing this he has maximized his tax deductions simply by shifting certain payments during a two-year period.

The logic is supported by looking at the situations mathematically in the chart below. As you can see we've created over \$2,000 more in deductions with some simple tax planning.

<b>Deductions</b>	<b>Nina Noplan</b>	<b>Peter Planner</b>
2007	\$ 6,000	\$ 5,350
2008	6,000	9,000
<b>Total</b>	<b><u>\$12,000</u></b>	<b><u>\$14,350</u></b>