

Uncle Sam Helps You Save Money

Saving for the future is of paramount importance to all Americans. Thanks to the tax code, you have several ways to save either tax-advantaged or tax-deferred. This applies to both the federal and state of Oregon taxes.

Traditional IRAs are now expanded to a maximum of \$5,000 per individual. If you and/or a spouse have combined salaried earnings up to \$10,000, you qualify. You get to deduct the taxes from your income, keep earnings tax deferred and start withdrawing after age 59 1/2 (without tax penalty) at which time you will pay taxes based on your income including the withdrawal. Minimum withdrawals start at age 70 1/2.

Roth IRAs is also expanded to the same amount. This is "after tax," but offers tax deferral plus tax-free income at the time of withdrawal. And you can contribute regardless of age as long as you have earned income to the extent of the deposit.

You may withdraw principal first without taxation but earnings would be subject to early withdrawal penalty prior to 59 1/2. There is an earnings limit that restricts higher-income taxpayers from contributing to or converting traditional IRA money to a Roth accounts.

Workplace retirement savings: 401K plans in the private sector or 403b & Deferred Compensation Plans for the public sector allow tax deductible payroll contributions. In some cases, the employer matches part of the contribution. The limits are \$15,500. Private employers may also offer stock purchases in their 401K.

Roth IRAs payroll deductions became available in 2006. This offers you the opportunity to do some of both from your paycheck, not to exceed the total of \$15,500 a year (\$20,500 for all plans if you're over age 55).

Medical (FSA Accounts) and Dependent Care Spending Accounts also offer tax-deductible payroll contributions. The limit for dependent care is \$5,000 and medical is unlimited to the extent of payroll. These are all pre-tax and very attractive. Annual elections must be made and no changes allowed during the year. "Use it or lose it" rules.

Health Savings Accounts (HAS): HAS may also pay medical costs, but these medical savings are different than FSA accounts.

You must have a high deductible health care policy, which means you'll have to pay medical costs of at least \$1,050 for self-only coverage or \$2,100 if for family

coverage. Talk to your health insurance provider for details.

HAS offers an immediate tax deduction of premiums and, if you do not use the pool of money, you retain it for future years.

College savings plans: These savings vehicles, known by their IRS section 529, come in two versions - Prepaid Tuition Plans and College Savings Plans. In Oregon, up to \$2,000 annual tax deduction is allowed for their sanctioned plan.

Some employers offer payroll "non-tax deductible" 529 plans. The advantage is that earnings are tax-deferred and also tax-advantaged if used for actual college expenses.

Because changes in tax law might occur at any time and could have impact upon each person's matters, additional questions should be referred to Carter & Carter Tax & Accounting*, 541-683-2900.

* Carter & Carter Tax & Accounting is independent of Raymond James.