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Column: Federal tax laws and three quick tips to help you save money this year

Friday, February 25, 2011 12:00 AM By Joe Wirbick

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On Dec. 17, President Barack Obama signed into law the 2010 Tax Relief Act. It extended many of President George W. Bush's tax cuts from 2001. It kept our income tax brackets at record lows for two more years, allowed the long-term capital gains tax rate to stay at a very attractive 15 percent, and extended some effective options for planning required minimum distributions.

Let's take a quick look at some of the implementations and see how you can benefit this year.

Leverage current low tax rates with Roth IRAs

First, our income tax brackets remain the same as last year and will stay that way through 2012. Historically speaking, they are the lowest rates any of us has ever seen. Don't forget we faced upper tax brackets in the 90 percent range back in the '60s. That means it is still a great time to start a Roth IRA or Roth 401(k), or convert your traditional IRA to a Roth, while the rates are still at an all-time low.

The beauty of the Roth is that you pay the tax now, and enjoy tax-free growth for the life of the account. You can even pass the Roth on to your children and they will enjoy tax-free growth as long as they hold the account. Also, there are no required distributions from a Roth, so the money can stay in the account and grow tax-free until you need it.

The current state of our deficit alludes to a future tax hike, one that won't make the Roth so attractive. Since the best time to pay taxes is when they are low — and they don't get much lower than this — it makes sense to contribute to a Roth account and pay the taxes today, rather than contribute to an account that will be subject to an uncertain (and most probably higher) tax rate in the future. This tax sale won't last forever; and when it's gone, it's too late.

For those of you who were proactive and did your conversions last year, this new law is even better. When you get your taxes done, simply ask that your preparer take the Roth conversion over two years, 2011 and 2012. They will split the amount converted equally and you won't have to pay any tax this year. That keeps more money in your pocket now, and since we know the tax rates are fixed for the next two years, there is no harm in putting off that payment. You get all that potential growth on your Roth tax free, and you don't have to pay the Treasury department their money for two years. It's like an interest- and tax-free loan.

Sell assets with long-term gains

Long-term capital gains taxes have also remained at their low rate of 15 percent. Long-term gains are those held for more than 12 months. So if you have not taken advantage of the little-known rule that those in the 10 percent and 15 percent brackets don't have to pay capital gains taxes, then this is the year to sell those appreciated assets. If you're lucky enough to have some appreciated assets, such as real estate or equities, then all appreciation will be tax-free as long as the gains do not push you into the 25 percent bracket.

Take your required minimum distributions tax-free

For those of you facing required minimum distributions (RMD) this year, it is important to understand how to

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avoid any taxation on those dollars. The qualified charitable distribution provision is back. Those of you wishing to donate money to charity and who are forced to take RMDs this year can now combine the two for significant tax savings.

Simply instruct your IRA custodian to cut your RMD directly to the charity of your choice, as opposed to taking constructive receipt of the money yourself (the charity must be a nonprofit or not-for-profit organization). By doing this you will keep those dollars off of your IRS Form 1040, thereby reducing your adjusted gross income, and possibly keeping your Social Security payment tax-free at the same time. You may even be able to split the donation among multiple organizations.

Remember, you don't have to take your RMDs from each of your IRAs separately, you can choose to take all the money from just one account. This has a double reward; less tax for you and more money to charities that greatly need it.

By following these simple suggestions you could save a lot of money in taxes. Remember to always consult your tax preparer with more detailed questions to see if any of these tips can work for you. It is also a good idea to talk to a qualified investment adviser to make sure you are using the right assets for your retirement accounts and that you are saving or distributing those hard-earned dollars in the most effective way possible.

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