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Start now on 2005 strategies for taxes

**Experts recommend getting an
early jump on IRA contributions**

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With two days left in the year, there isn't much you can do to change your personal financial and tax picture for 2004. Not in a positive way, anyway.



Keeping fiscally fit

A few New Year's resolutions
suggested by financial experts:

But the dawn of a new year is the best time to take a look at your personal finance strategies for the year ahead.

"If you get an early start, it'll pay off down the road." said certified financial planner Harry Kasanow, of Kasanow & Associates: Wealth Management.

State and federal tax laws are tweaked yearly, and though nothing earth-shaking is set for 2005, there are several new opportunities to help solidify your financial picture.

If you're not completely cash-poor from Christmas, one of the best ways to hit the ground running in the new year is to get an early jump on feeding your Individual Retirement Accounts and other retirement savings vehicles, Kasanow said.

Beginning Jan. 1, the allowable annual contribution to traditional and Roth IRAs rises to \$4,000 from \$3,000 last year -- and to \$4,500 for those over 50 years old.

Max out your contributions early, which gets those funds quickly out of taxable savings accounts or investments and into the tax-free retirement plans, Kasanow said.

What's more, the sooner your money begins compounding in those retirement accounts, the better. Kasanow said studies have shown that contributing the entire amount each January for 20 or more years can result in hundreds of thousands of dollars in additional wealth.

"The early bird does get the worm. There's some truth to that," he said.

Eliminate credit card debt

Nondeductible credit card debt can be consolidated into home-equity loans offered at low rates with tax-deductible interest.

Plan ahead on health care

Young or old, devise a plan for paying your future health-care bills, which will keep growing. Decide now whether you want to take out long-term care insurance, and factor that into your strategy.

Save, save, save

Higher ceilings on annual retirement account contributions allow you to pump up those accounts. Contribute early in the year to maximize returns.

Don't rush to file taxes

Filing your income tax return early might mean you miss out on any tax breaks passed retroactively by the Legislature this year.

Go green

Reduced tax incentives for businesses buying large sport utility vehicles, coupled with tax breaks for fuel-efficient electric or hybrid cars, will save you money and help the environment.

Shop around for rates

Interest rates are creeping up, but banks are slow to react on their deposit account rates. Consider money-market mutual funds, which adjust rates upward more quickly.

But patience can be a virtue in 2005 as well.

Brad Totherow, president of investment managers Cadinha & Co., advises holding on to stocks and other investments for now until the Bush administration's approach on taxes clarifies, saying he expects "a reduction of taxes across the board."

"Unless you need to sell off a real loser, I'd say hold on to your investments and watch the politics," he said.

Of the recent tax law changes, several provide significant benefits for military families hit by overseas deployments.

Personnel who serve in a combat or hazardous zone can now exclude basic pay earned during each month of such duty from their gross income for the year.

That exclusion, which also applies to some other forms of pay, was enacted at the federal level in 2003 and adopted by the state Legislature in 2004, taking effect for Hawaii tax purposes beginning Saturday.

Another measure could significantly reduce taxes on homes sales.

Homeowners who occupy their home for at least two of the first five years they own it are exempt from taxes on profits from the sale of the home, up to \$250,000 for those filing singly or \$500,000 for joint filers.

But a measure adopted last year by the state allows military personnel on extended tours of duty to suspend that five-year period for up to 10 years.

Though most military personnel rent lodgings, there are significant numbers of homeowners here, too, said Capt. Beau Ruff, officer-in-charge of tax services for Hickam Air Force Base and Schofield Barracks.

"They might buy a home here and then get sent off somewhere else within two years, which presents a tax problem if they sell, so this is a good option," he said.

Other changes include tax-filing extensions of at least six months for those deployed overseas; deductions for overnight travel expenses incurred by National Guard and Reserve members; and an increase in the death gratuity to survivors of deceased military personnel to \$12,000 from \$6,000.

"These things are really hitting home now because of the high numbers of personnel deployed overseas," Ruff said.

Many other beneficial tax-law changes were not adopted by Hawaii in 2004, but don't write those off just yet.

Some might be adopted by the 2005 Legislature to apply retroactively.

For instance, payroll taxes, medical insurance payments and other items deducted from your paycheck already can be deducted from your annual income at tax time, but 2004's federal tax changes allow taxpayers the option of deducting state sales taxes instead.

That might be a better option for those who in 2004 bought a newly built home, expensive car or anything else hit with a substantial Hawaii general excise tax, said Cathy Tokishi, a tax information specialist at the state Department of Taxation.

Retirees, in particular, could gain, since retirement income such as Social Security benefits and qualifying state and corporate pensions are not taxed anyway, she said.

"We recommended that people don't file their returns right away -- to get an extension and see what the Legislature passes," Tokishi said.

That said, there's still time to make a difference this year, said Kasanow. Taxpayers could still qualify for additional deductions on their 2004 tax bill by making as many tax-deductible outlays as possible, such as paying the next installment of your property taxes early or finally giving to that charity you've had soft spot for.

"As long as that check is dated the 31st or sooner, you've made it," Kasanow said.