

## Prior Year Tax Planning

You might think that it is too late to accomplish some tax planning for last year; this is not entirely true. There is still time and ways to reduce your taxable income for the prior year. Here are some of the ways that you can reduce your taxable income on this year's tax return, thus reducing the tax that you pay.

### 1. Contribute to an Individual Retirement Account (IRA)

An Individual Retirement Account is a savings tool for retirement. Individuals are allowed to contribute up to \$5,000 per year to their IRA as long as they have earned income, and are younger than age 70½ by the end of the year.

For a married couple, \$5,000 can be contributed per individual for a total of \$10,000. An additional \$1,000 can be contributed if you are over age 50 as part of a catch up program for retirement.

Let's examine how this retirement tool can save you money in taxes.

If you are in the 28% tax bracket you can save \$1,400 in taxes by contributing \$5,000 to your own retirement, something that you should be doing anyways. If you are married you could save \$2,800 in taxes.

An IRA is a great way to reduce your taxes and save for retirement. The best part about it is that you have until April 15th of this year to fund the contribution and decide whether you want to save yourself some money.

### 2. Set Up a SEP-IRA If You are a Self-Employed Individual

A Simplified Employee Pension Plan (SEP) is an easy way for business owners to set up a simple, low-cost retirement plan. There are many advantages to a self-employed individual setting up a SEP-IRA, they include:

- You can contribute up to 25% of wages up to a maximum contribution of \$49,000
- You can still make deductible contributions after age 70.5
- An individual can make their own investment decisions
- You don't have to fund the account until April 15th of this year and you can still reduce taxable income for the prior year

If this tax strategy is of interest to you or you are interested in any other tax planning strategies, please feel free call The Ruboyianes Company.