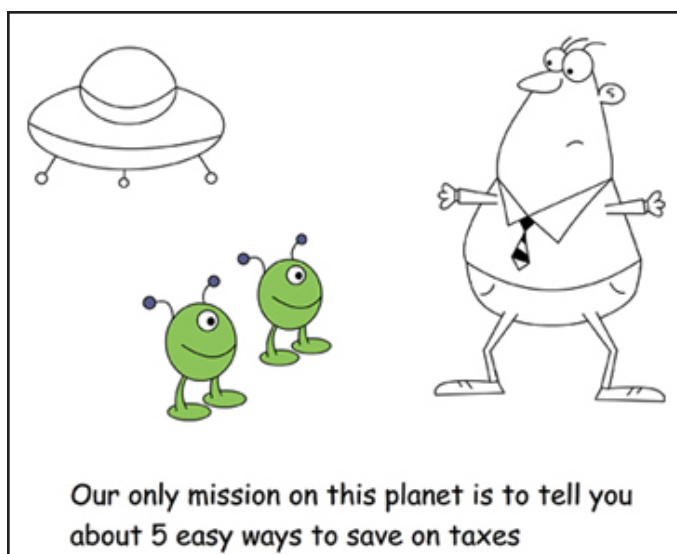


5 Easy Ways to Save on Taxes

The Motley Fool

By Elizabeth Brokamp

It's hard to get ahead with Uncle Sam stretching out his hand every time you earn a few extra bucks. While paying what you owe is the patriotic way, it's always nice to owe less rather than more. Here are some of the best (and strictly legal) ways to reduce your taxable income but still satisfy Uncle Sam when he comes knocking.



1. Take advantage of perks at work. If your employer offers a dependent-care spending account or a health care spending account, the dollars you sock away in the programs are deducted from your pre-tax pay.

Often, enrollment times are limited, so check with your human resources department to determine when you're eligible. Acquaint yourself with what qualifies as a reimbursable expense. For example, you may be surprised to learn that expenses for [over-the-counter medicine](#) may qualify under health-care flex spending or that, under the [Child and Dependent Care credit](#), expenses for an after-school program may qualify for your kindergartener even though school does not.

2. Be cool; stay in school. Or at least pay for qualified expenses for your post-secondary education (or your spouse's or a dependent's), and you may qualify for the [higher-education tuition and fees deduction](#) - a legitimate perk worth up to \$4,000 off of your taxable income.

Likewise, the interest on your student loan [may be deductible](#). Or you may qualify for a benefit under the Lifetime Learning credit or the Hope credit.

But make sure you're not double-dipping, i.e., taking more higher education deductions than are allowed. For example, you may not take both the Hope and the Lifetime Learning credits for the same student in the same year. Check the IRS's [Publication 970](#) for details.

3. Fund your retirement. Are there people out there still not funding their [401\(k\)](#)? Amazingly, yes. But not funding your 401(k) is like throwing away free money, especially if you have an employer match. Your contribution is withdrawn from your paycheck pre-tax, which means that the dollars you save are worth a whole lot more than the ones you intend to spend.

4. Sell your lousy stocks. Getting rid of that clunker of a stock can do more than make you sigh for relief - it can offset any capital-gains taxes you owe on selling your winning stocks. You can use up to \$3,000 of loss on your tax return to reduce ordinary income after all your gains are offset by your losses. You can then carry over any remaining loss to future tax years. Read the IRS's [Topic 409](#) for more information about capital gains and losses.

5. Get entrepreneurial. Started up a jam-making business out of your home this year? Good for you - and your taxes! You may be able to deduct business expenses related to the use of your home, including part of your mortgage interest, insurance, utilities, repairs, business furniture, and depreciation. [Check with the IRS](#) to be sure you (and your jam) are in compliance.

Want more tax-saving ideas? Try:

[10 Top Tax-Planning Tips](#)
[Deduct Your Worthless Stock](#)
[Speaking Mathanese: Capital Gains](#)

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Fool contributor [Elizabeth Brokamp](#) is a licensed professional counselor who regularly talks money with her honey, [Robert Brokamp](#), editor of [The Motley Fool's Rule Your Retirement](#) newsletter. [The Fool has a disclosure policy.](#)

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