



FINANCIAL SERVICES  
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## Keep the Tax Man at Bay

*Here are some ideas on how to reduce your tax bill.*

**❶ Increase your retirement investments.** Boosting your contributions to employer-sponsored retirement plans like 403(b)s and 401(k)s can help you reduce your taxes. With these plans, your contributions come from your salary before taxes are taken out, which lowers your tax bill while helping you save for retirement. In 2007, you can contribute a maximum of \$15,500 to a 401(k) or 403(b) account, or \$20,500 if you're age 50 or older.

**❷ Maximize deductions.** One way to reduce taxes is by itemizing deductible expenses. Typically, you itemize deductions when your expenses exceed the IRS' "standard deduction" amount; for the 2007 tax year, the standard deduction is \$7,850 for heads of households; \$10,700 for married taxpayers filing jointly; and \$5,350 for singles and for married taxpayers filing separately. (Note: In certain circumstances, you may be required or elect to itemize deductions on your federal return rather than take the standard deduction, even if your itemized deductions are less than the amount of your standard deduction.)

Deductible items include: home mortgage interest; state and local taxes; large uninsured medical and dental treatment expenses (if more than 7.5% of adjusted gross income [AGI]); charitable contributions; uninsured losses from theft or property loss (if in excess of \$100 per loss plus 10% of AGI); unreimbursed employee business expenses and business gifts (if these and other miscellaneous itemized deductions exceed 2% of AGI). If your expenses aren't high enough to qualify you for the standard deduction, consult with your tax advisor about possibly "bunching" deductions — combining expenses in alternating years to help you qualify for itemizing at least every other year.

**❸ Revisit your investments.** If you have after-tax investments outside of qualified retirement plans or IRAs — such as individual stocks and bonds or mutual funds — you can use

capital losses from selling them to offset any capital gains you made during the year. Also, each year you can write off up to \$3,000 of net investment losses against your ordinary income; you can carry any losses above this amount into future years.

④ **Give to charity.** When giving to charity, you will get a bigger deduction if you donate securities like stocks and bonds rather than writing a check; besides giving you a deduction for the current market value of the security, you'll avoid paying tax on the appreciated value. However, don't donate securities that have depreciated in value during the past year, because you can deduct the loss on a security only if you sell it, not if you donate it. Also, note that under the Pension Protection Act of 2006 (PPA), if you're an IRA owner over age 70½, you can make tax-free IRA distributions of up to \$100,000 to public charities. However, this new provision is only in effect for the 2006 and 2007 tax years.

⑤ **Use a flexible spending account.** If you have unreimbursed medical or dental expenses that exceed 7.5% of your AGI, you can deduct the excess from your taxes. Also, if your employer offers a flexible spending account, consider using it. Through these accounts, you can use pretax money to pay for medical premiums and for out-of-pocket health, drug, child care and elder care costs. But you can't claim a deduction for medical expenses if you received an insurance reimbursement or paid the expenses from a flex spending account.

⑥ **Look at 529 plan contributions.** If you're helping a child build funds for college through a state-sponsored Section 529 college savings plan, doing so may help you reduce taxes. Many 529 plans let you deduct all or part of your contributions from your state taxes if you're a resident of that state. Investment earnings in 529 plans grow tax deferred, and withdrawals of funds used for qualified higher education expenses are currently federal and in most cases state income tax free. Also, the PPA permanently provides that distributions from 529 savings plans are federal income tax-free when used for qualified higher education expenses.

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addressed herein. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor.

Before investing in a Section 529 plan, consider whether your state of residence has a 529 plan that offers favorable state income tax treatment or other benefits that are only available if you invest in that state's plan.

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