How to make your tax dollars work for retirement

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April 15 has come and gone. You spent the better part of the days prior to the looming tax deadline dreaming about what to buy with your tax refund. But most of us were procrastinators and waited until the 11th hour to organize our taxes and think about the best ways to maximize our tax dollars.

So why not start thinking about the upcoming year now and take certain steps to ease the stress of tax time? Maybe you could even take a vacation at this time next year. Here are three steps toward that goal.

Maximize your dollar

Many employers offer their employees the option of contributing toward a 401(k) or other retirement account, as well as matching the dollars allotted to the account. But many may not be taking full advantage of tax breaks that retirement accounts can provide.

This all adds up to a very comfortable retirement if you are contributing and maximizing the amount of money dedicated to the accounts. Enrolling and maximizing your contributions to an employee-sponsored retirement program, like a 401(k), can make a difference in terms of the amount of taxes paid to Uncle Sam.

Employees who found that they owed income tax should seek advice from a tax specialist to change their withholdings to better increase their chances of owing less or no taxes come tax time. The combination of changing your withholdings on your W-4 form and maximizing your contribution to your employer-sponsored retirement account is making your money work smarter for you. The money will be better spent for you invested in your retirement in the following year and not paid to Uncle Sam.

Learn about new IRA contribution and deduction rules and regulations

The federal government puts a lid on the amount you can contribute annually to a variety of retirement accounts. Thanks to a scheduled increase in the IRA contribution limit, IRA owners can make larger contributions for 2005.

What does a higher contribution mean to you? Higher limits allow more money to be put toward your IRA. With more money in your retirement account you will be better prepared for your golden years, and less likely to "outlive your money."

For the tax year of 2004, the maximum contribution was $3,000 for a tradition or Roth IRA. In 2005, the standard limit for regular contributions increases by $1,000 to $4,000. But be careful of not overfunding the IRA account. If the IRA is overfunded, you will have to pay 6 percent in excise taxes, for each year the excess is in your account. You should withdraw the excess as soon as you realize your mistake.

Even though the deadline to maximize your IRA contributions has passed for the previous tax year, it's not too late for the 2005 tax year. Take the refund and open a tax-deductible retirement account.

Roll over retirement accounts correctly

Have you changed careers and don't know what to do with your retirement account from that previous job? Have you recently retired from your company and don't know what to do with your 401(k)?

Chances are you will have to roll over a retirement account at least once in your lifetime. Most likely, it will be when you leave your current employer and take your 401(k) with you. You will need to roll over your 401(k) into an IRA, and an IRA will give you many more investment options than either leaving the money in your old 401(k) or rolling it over into your employer's plan.

Avoid the 20 percent withholding and arrange for a direct rollover. This means the distribution check from the retirement plan at your old company must be made out in the name of the trustee or custodian of the IRA account that you want to receive the rolled-over funds.

The next step is to notify your former employer's retirement plan administrator that you are making a direct rollover. Deposit the check in the rollover IRA within 60 days.

Coghlan, CRPC, has over 12 years of experience in retirement and investment planning, and started Coghlan Financial Group LLC in 2002 after many years with both Smith Barney and Merrill Lynch. For more information, call (858) 550-3960.

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