Don't Miss These Special Summer Tax Breaks—

Tax breaks are the last thing most people think about on vacation, but summer presents an opportunity to take advantage of many of these breaks – even though they are available year-round.

-Business-Pleasure Travel

You can write off the cost of a vacation by combining business with pleasure. If you don't have your own business, you may be able to deduct the costs as un-reimbursed employee business expenses if they, along with other miscellaneous itemized deductions, represent at least 2% of your adjusted gross income. If you run your own business, your company may be able to take the deductions.

Important: Keep complete records of any business activities –programs from conventions you attend, credit card receipts from business meals, follow-up letters, sales that resulted from meetings held on the trip. These will help justify the deductions in case you are audited.

In all situations, meals are 50% deductible if they can be attributed to business.

-US Travel: Say you want to vacation in San Francisco this summer. Schedule a few business meetings or attend a convention in or near San Francisco.
Tax saver: You can deduct 100% of the transportation and hotel costs if the trip was primarily for business and 50% of meal costs for the business days. If you share a hotel room, you can deduct the full costs of a single room per business day, even if that is more than half the double-room rate you paid.
Bonus: Travel days and weekends that fall between business days also count as business days.
Caution: Even if your spouse accompanies you to receptions, you cannot deduct his/her travel expenses – unless the spouse also is on your company's payroll.

-Foreign travel: If you travel overseas for less than one week and the primary purpose of the trip is business, you can write off all your transportation costs, as you can for a domestic trip. If you go abroad for more than a week, you can deduct only the business portion of your transportation expenses. A 100% write-off still is available for foreign transportation costs if you are outside the US for more than one week but spend less than 25% of the time on personal activities. If your trip is primarily for pleasure, you can't deduct anything.

-Dependent-Care Credit
Expenses that qualify for the dependent-care credit were increased last year from $2,400 to $3,000 for a child under age 13. For two or more children, the maximum rose from $4,800 to $6,000.
-To qualify for this tax credit: Child care must be used to enable a parent to work, even part-time, or attend school full-time or part-time. A working parent cannot take this credit if the other parent stays home with the child. The credit will help pay for in-home care, day care or day camp. Sleep-away camp doesn't qualify.
Tax saver: If your AGI is more than $43,000, the credit is 20%. At lower income levels, the credit is as high as 35%.

Example 1: Both you and your spouse work, and your joint AGI totals $60,000. While your two children (ages seven and ten) are out of school, you send them to a day camp that costs $7,000. The first $6,000 is eligible for a 20% credit. Total savings: $1,200 (20% of $6,000).
You can save even more if you and/or your spouse participate in a flexible savings account (FSA) that covers dependent care. Up to $5,000 in pretax dollars per couple per year can be contributed to an FSA and used for dependent-care expenses. If your tax bracket is 15% or higher, you're better off using an FSA to pay for child care rather than just relying on the child-care credit.

Example 2: You spend $7,000 ON DAY CAMP. The first $5,000 can be paid from an FSA. In the 25% bracket, you'll save $1,250 (25% of $5,000).
This reduces the amount you can use for the dependent-care credit from $6,000 to $1,000. The remaining $1,000 will save you another $200 (20% of $1,000). Total savings: $1,450 versus $1,200 if you had used the credit without an FSA.

-Roth IRAs
A child who works and earns a salary is eligible to make deductible contributions to a traditional IRA. Youngsters usually owe little or no tax on earned income, so the IRA deduction isn't worth much. All withdrawals will be fully taxed in the future, perhaps at a high rate.
Tax saver: Your children can contribute up to $4,000 in earnings to a Roth IRA each year. Contributions are not deductible, but withdrawals after age 59 ½ are tax-free. If you wish, your kids can spend the money they earn. Anyone can give them the money to make a Roth IRA contribution. A 2005 contribution can be made up to April 15, 2006. Roth IRA contributions cannot be made for a child who doesn't work.

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