

Name \_\_\_\_\_

## Tax Magic: Reducing Your Tax Bill Legally!

### Open-Ended Response Answer Key

1. To legally reduce tax liability earning \$60,000 per year, a strategy could involve contributing to a traditional IRA, which is deductible for individuals within income limits. This contribution lowers taxable income, reducing the tax liability for the year.
2. Deducting mortgage interest can reduce someone's tax bill because it's a tax deduction. When they pay mortgage interest, they can subtract that amount from their taxable income, resulting in a lower tax liability for the year.
3. Contributing to a traditional IRA can lower current tax liability by deducting contributions from taxable income. This reduces the immediate tax bill. Additionally, earnings within the IRA grow tax-deferred, helping to save for retirement.
4. It's essential for individuals to be aware of tax planning strategies because they can help optimize financial decisions, save money, and reach long-term financial goals. These strategies contribute to financial well-being by allowing individuals to keep more of their hard-earned money and make informed choices.

