It’s Beginning to Look A Lot Like Tax Time

Get Your Year-End Planning Done Now

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The end of the year is a busy time. You’re likely focused on holiday shopping, party planning and making New Year’s resolutions. You’ve already got a lot on your plate but there’s another important project you need to add to your to-do list – year-end tax planning! It can help determine ways to minimize three different kinds of taxes for individuals: regular income tax, net investment income tax and alternative minimum income tax (AMT).

Deduction Planning

Deduction timing is an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as adjusted gross income (AGI) levels, AMT, and filing status. If you are a cash-method taxpayer, remember to keep the following in mind:

An expense is only deductible in the year in which it is actually paid. Under this rule, if your tax rate is going to increase in 2015, it is a smart strategy to postpone deductions until 2015. If you pay by credit card in 2014, you can take the deduction even though you won't pay your credit card bill until 2015.

Charitable Contributions

Consider making your charitable contributions at the end of the year. This will give you use of the money during the year and simultaneously permit you to claim a deduction for that year. You can use a credit card to charge donations in 2014 even though you will not pay the bill until 2015. A mere pledge to make a donation is not deductible, however, unless it is paid by the end of the year. To avoid capital gains, you may want to consider giving appreciated property to charity.

Regarding charitable contributions, please remember the following rules: (1) no deduction is allowed for charitable contributions of clothing and household items if such items are not in good used condition or better; (2) the IRS may deny a deduction for any item with minimal monetary value; and (3) the restrictions in (1) and (2) do not apply to the contribution of any single clothing or household item for which a deduction of $500 or more is claimed if the taxpayer includes a qualified appraisal with his or her return. Charitable contributions of money, regardless of the amount, will be denied a deduction, unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization, and the date and amount of the contribution.

Alternative Minimum Income Tax

You need to be aware that many itemized deductions for regular income tax such as taxes paid and investment management fees are *not* deductions for alternative minimum income tax. Increasing these expenses may reduce your cash flow but not your overall tax liability.

Compliance

There are several steps you need to take with year-end tax planning to ensure your compliance with regulations, statutes and laws. If you have state tax liability due to activity you've had during the year, you can look into paying your state income tax before December 31. This would give you the deduction for it in the current year which could potentially reduce your tax liability, but it would depend on other factors and items on your tax return.

Business Entities

If you own an S Corp or a C Corp, you need to make sure there's been reasonable compensation for services performed during the year. Before year-end, S Corp owners also need to add certain items to their W-2's such as personal use of auto and health insurance.

If you have suspended losses due to lack of basis in either an S Corp or a partnership, you can look at loaning that entity money in order to generate additional basis so that you can take some of those losses.

How old are you?

Another issue that needs to be addressed at the end of the year: your age. If you are over the age of 70 ½, you must take a required minimum distribution (RMD) from your IRA by December 31. The penalty for not taking the RMD is 50% of the amount you should've taken. The only exception is the first year that you turn 70 ½.

Health Care Planning

Under the 2010 health care reform law, sometimes called Obamacare, beginning in 2014, there is an individual mandate requiring individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty unless they are exempt from the requirement. Many people already have qualifying coverage, which can be obtained through the individual market, an employer-provided plan or coverage, a government program such as Medicare or Medicaid, or an Exchange. For lower-income individuals who obtain health insurance in the individual market through an Exchange, a premium tax credit and cost-sharing reductions may be available to offset the costs.

Capital Gains and Losses

You should look at your brokerage account activity and identify anything that says "please provide" next to the cost basis. You will then need to research the basis so that you can harvest capital gains and losses. But remember, you only want to do this for securities you are willing to part with. Don't run your investment portfolio based solely on tax consequences – however, you may want to time the sale of assets so as to have offsetting capital losses and gains.

The sale of real estate can also affect capital gains and losses. If you sold any real estate during the year, you will need to know how much you paid for it plus the cost of any improvements to compute the actual gain and loss.

Energy Incentives

Until 2016, tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. If you have made improvements to your home or plan to by the end of 2014, please be aware that certain expenditures can qualify for a credit.

Did you inherit something?

If you inherited something this year, it may qualify as income. Assets generally do not have income tax consequences, but any income earned from the assets can affect your income liability for the year.

Change in Filing Status

Finally, if you've had a change in dependents or filing status from the prior year, you might want to look at increasing or decreasing your withholdings or estimates in December. For example, you've had a dependent child graduate college and he's now supporting himself. Or maybe you got married or divorced – this can change your filing status from the prior year tax return.

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