Year-end Tax Planning Guide

Strategies to Reduce What You Owe

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Tax planning can be critical for several reasons. It can help you have an idea of how much tax you may potentially owe with your return or extension and also help determine if it's possible to reduce that amount.

If your income is solely wage income or you only have a standard deduction, there may not be as many benefits to year-end tax planning. However, it's possible to lump together itemized deductions – for example, medical expenses for two years into one year, enabling you to get a higher itemized deduction one year and a higher standard deduction the next year, allowing you to maximize your tax savings.

Here's a look at some of the items you should be considering for year-end tax planning.

Alternative Minimum Tax (AMT)

Always a suggestion to consider for year-end is the timing of your income and deductions. While the mantra may be to accelerate deductions into the current year and see what income you can push into the following year, you always have to consider AMT. Deductions that can have an effect on that are state and local income tax payments, including withholdings and estimated tax payments; real estate tax payments; and miscellaneous itemized deductions that are subject to 2% of your adjusted gross income such as investment fees and unreimbursed employee business expenses. The annoying thing about AMT and regular tax is that you get to compute both and then pay the highest amount.

Charitable Donations

Charitable donations are deductible for both regular tax and AMT. But, large non-cash donations may require other documentation to be done before they can be deducted. Sometimes an appraisal may be required and you may need to get a signed form from the charity to attach to your tax return.

Adjusted Gross Income (AGI)

As your AGI exceeds certain thresholds, then your itemized deductions in total will be limited. For 2015, the thresholds are $258,250 for single taxpayers, $284,050 for heads of household, $309,900 for married filing joint and $154,950 for married filing separate. If your income is close to these AGI thresholds, there may be certain things that you can do to reduce your AGI, such as making a contribution to a health savings account or additional retirement plan contributions.

Capital Gains

If you have large capital gains that have been realized during the year, you may want to look at your portfolio to see if there are any unrealized losses you can harvest before the end of the year to offset your capital gains. Just be aware that if the stock you sold at a loss is a stock you really like, you can’t buy it back within 30 days and count the loss on your tax return. That would be considered a wash sale and the loss will be disallowed.

Also be aware that mutual fund investments tend to have capital gain dividends at the end of the year that you may not have been anticipating in your income earlier in the year. This can also affect your AGI.

Net Investment Income Tax (NIIT)

Single taxpayers and heads of household with a modified AGI of over $200,000 and married taxpayers filing jointly with a modified AGI of over $250,000 may owe the 3.8% NIIT in addition to other taxes. This is tax on your interest income, dividend income, capital gain income and passive activity income.

Identity Theft

Unfortunately, we’ve had a number of clients during the past several years that have been notified, when they’ve tried to e-file their tax returns, that a tax return had already been filed under their Social Security number. The IRS then requires a separate form (Form 14309) when this happens and may also determine that the taxpayers need an identity theft pin number. Just be aware that if you are issued one of these pin numbers, the IRS issues a new one every year in December and you need to get that pin to your tax preparer.

Tax Extenders

At this point in time, a number of popular, but temporary, tax incentives are not available for 2015 unless they’re extended by Congress. For individual taxpayers, these include the state and local sales tax deduction, the higher education tuition and fees deductions, the mortgage debt forgiveness exclusion, the teacher’s expense deduction and some residential energy property credits.

Marital Status

Your marital status (single, married or divorced) for the entire year is determined on December 31. Because income tax brackets vary between your filing status, a marriage penalty or a marriage benefit can result for a particular couple. So, accelerating or postponing marriage or divorce at year-end might be considered based upon tax consequences. Not very romantic is it? Also be aware that if you are married filing separate and your spouse dies during the year, your filing status is determined on the date of death and not December 31.

Retirees

Generally, it's best to use money from your taxable accounts first and let retirement plan assets grow tax-deferred as long as possible. However, be aware if you're age 70 ½ or older, there are required minimum distribution (RMD) rules that determine an amount you need to take from certain retirement accounts. Also, don't forget that you need to apply for Medicare by the time you're age 65 or else a penalty will apply to the amount you pay for Medicare premiums.

Life Events

Let your CPA know if you have any big life changing events such as the birth of a child, a child who is no longer your dependent (maybe he or she graduated from college), or you get married or if you get divorced. These life changing events can have an impact on your taxes.

Professional Tax Planners Only

Don't try this at home. Enlist the help of your CPA. Tax planning can be complicated, as other parts of the tax law need to be taken into account. You don't want to overlook or mess up anything, so please let us help.

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