Mid-Year Tax Planning:
Get Ahead of Uncle Sam

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With one of the biggest holidays of the summer just around the corner, you're probably thinking about barbecue, fireworks and lounging by the water. You're not thinking about paying your taxes. But maybe you should be. Yes, April 15 is months away, but you can benefit from mid-year tax planning in a number of ways including covering estimated tax payments for the September 15 deadline and getting organized for next tax season. The following is a list of situations that may have you wanting to settle up with Uncle Sam now, instead of later.

Change in Income after Retirement

If you're retired, your income may not vary much from year to year, but if anything out of the ordinary comes up, it could throw off your estimated tax payments. For example, you sell a rental house this year. You may be asking yourself, *so what's the big deal?* Let's say in 2013 that the Additional Medicare Tax (Net Investment Income Tax) did not apply to you. But this may cause it to apply to you in 2014. So, if selling your rental house leaves you with a large capital gain, it may throw you over the NIIT threshold or into a higher tax bracket. With mid-year tax planning, you can figure out the tax ramifications in advance. That way if you were already making plans on how to spend the proceeds from the sale, you will know how much to set aside to pay your tax liability.

Another issue to consider in this situation: the state tax liability on the sale. It may be to your benefit to pay that before the end of the year so that you can take it as a deduction on your 2014 tax return instead of 2015. You will need to take the Alternative Minimum Tax into consideration when determining if there's any benefit to paying early. Doing so could reduce your federal income tax liability in 2014.

Business Owners

If you own a business and you're having a really good or really bad year, you may want to make estimated tax payments. That way you're not due a large refund and possibly paying out money to the IRS earlier than you need to; or you can find out if there's a tax liability so that you have some cash in reserve next year to pay it. This applies whether you have a corporation that pays its own tax, or an entity that passes the income along to the partners or shareholders.

Capital Gains and Charitable Contributions

You can look at harvesting large capital gains in stocks by donating them to a charitable organization. If you have other appreciated capital assets, and want to avoid paying the capital gains tax on selling them, these can also be donated. Planning for this in July gives you plenty of time to get an appraisal on your capital assets, if they're not publicly traded, instead of waiting until December. You won't have to pay the capital gains tax and you will get a deduction of the full amount at fair market value. This subtracts from, instead of adds, to your taxable income.

Work Bonuses

If all of your hard work on the job pays off in the form of a bonus and you're not already maxing out your retirement plan, mid-year tax planning can help in this situation as well. It is best to contact your professional tax adviser before you receive the bonus if you have any control over how it's paid out. For 2014, you can defer up to $17,500 if you're under the age of 50 and $23,000 if you're over 50. It is always a good rule of thumb to at least contribute enough to your retirement plan to take advantage of any employer match.

Life Changes

It's wise to consider tax planning if you're getting married, divorced, having a baby, or if your spouse dies. These life changes can impact your taxes not only for 2014 – some may come into play in 2015. A midyear discussion with your tax adviser can cut out some angst during tax season.

Sidestep Estimated Tax Problems

To avoid penalties for tax underpayments, you must pay enough tax during the year through any combination of withholding and quarterly estimated tax payments. The tax law provides two popular safe harbor methods: You will not be assessed a penalty if you pay at least 90% of your current tax liability or 100% of the previous year's tax liability (110% if your adjusted gross income was more than $150,000). Based on a midyear analysis, you might increase withholding to qualify for one of the safe harbor methods.

Get Organized Now

Summer is the perfect time to start getting charitable donations, medical receipts and other relevant tax documents together. It's hot, so if you're stuck indoors you could be getting organized now. So, go ahead and contact your tax adviser to help you plan for the rest of the year.

One final thing to keep in mind – you shouldn't make all financial decisions based on tax implications. Cash flow and investment diversity can be just as critical as tax savings. Every situation is different. Your Henry & Horne, LLP professional tax advisers can help you figure out what works best for your circumstances.

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