

Seven Year-end Tax Moves for Individuals

By Donna Laubscher, CPA
(480) 483-1170 ~ DonnaL@hhcpa.com



No one is sure what Congress will do before 2014, but major tax reform remains a possibility. Nevertheless, with some astute planning, you may be able to maximize existing tax benefits—including those available under the new American Taxpayer Relief Act of 2012 (ATRA)—while staying flexible. Here are seven year-end strategies to consider.

1. Offset capital gains and losses. Examine your portfolio. Depending on your situation, you might realize capital losses to offset prior capital gains, or vice versa. Any excess loss may offset up to \$3,000 of ordinary income before being carried over to next year. For 2013, the maximum tax rate on net long-term capital gain is 15% (20% for certain high-income investors).

2. Analyze AMT ramifications. Despite modest increases in exemption amounts for the alternative minimum tax (AMT), many taxpayers will still be blindsided by this “stealth tax.” Generally, the AMT applies if you have an overabundance of “tax preference items,” especially if you reside in a high-tax state. Have a review of your AMT liability conducted to determine if you should shift income items or deductions at year-end.

3. Secure deductions for charitable gifts. You can generally deduct the full amount of monetary gifts made to qualified charities if you keep the proper records. Also, you may deduct the fair market value of gifts of appreciated property if certain requirements are met. Be aware that special limits may apply, including a reduction in deductions for some high-income taxpayers.

4. Prepay state and local income taxes. Absent other circumstances, the conventional wisdom is to reduce your current income tax bill, when possible. Therefore, you might arrange to prepay any state and local income taxes due on January 1, 2014, before the end of the year. As a result, you can increase the 2013 deduction for state and local taxes.

5. Bunch up medical expenses. Beginning in 2013, the threshold for deducting medical expenses for most working taxpayers increases to 10% of adjusted gross income (AGI), up from 7.5% of AGI. If you have a shot at a deduction, move elective expenses, such as dental cleanings and physical examinations, into this year. Otherwise, you might as well postpone expenses to next year.

6. Generate an energy credit. Under current law, you may qualify for a residential energy credit for installing energy-saving property in your home. The credit is generally equal to 10% of qualified expenses, up to a lifetime maximum credit of \$500, although other special limits may apply. The credit is now scheduled to expire after 2013, but it could be extended again.

7. Lock in dependency exemptions for children. Usually, you can claim a dependency exemption for children younger than 19 or full-time students younger than 24. But you have to provide more than half the child's support to qualify. When necessary, increase support at year-end to ensure that you clear the half-support mark for 2013.

Don't Forget New Surtax

There's another tax wrinkle this year: a new 3.8% Medicare surtax applies to the lesser of your "net investment income" (e.g., capital gains, interest, dividends and other income) or the excess above \$200,000 of adjusted gross income for single filers and \$250,000 for joint filers. This could be a significant factor in your investment decisions (see no. 1).

This article includes some popular year-end strategies for individual taxpayers, but your situation may differ. Obtain specific guidance from your Henry & Horne, LLP professional tax adviser.

Donna H. Laubscher, CPA, is a Partner at Henry & Horne, LLP. Her areas of expertise include individual taxation and accounting services for business entities. Contact Donna at (480) 483-1170 or DonnaL@hhcpa.com.



HENRY & HORNE, LLP
Certified Public Accountants

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284
(480) 839-4900

Scottsdale
7098 E. Cochise
Suite 100
Scottsdale, AZ 85253
(480) 483-1170

Casa Grande
1115 E. Cottonwood
Suite 100
Casa Grande, AZ 85122
(520) 836-8201