

YEAR –END TAX PLANNING OPPORTUNITIES

1. ORGANIZE YOUR INFORMATION BEFORE YEAR-END AND GET HELP IF NEEDED:

- Organization allows you to know where you stand so that you can undertake appropriate year-end tax planning. Without accurate information, some of the planning items suggested may not work, and could actually have a negative tax impact.
- See a tax professional before year-end if you have any questions or are attempting a planning technique that you do not fully understand.

2. DEFER INCOME:

If you expect your next years' tax bracket to be no higher than the current year's tax bracket, shift income to the next tax year and delay payment of the tax liability by:

- Timing of retirement plan distributions (over the required minimum distribution for the current year).
- If you are an employee (not owner of corporation), have your bonus paid in the next tax year.
- If you are self-employed and on a cash basis of accounting, bill customers early next year rather than December of the current year.

3. ACCELERATE DEDUCTIONS:

Unless you expect to be in a higher tax bracket next year, you can accelerate deductions by:

- Using a credit card to prepay expenses—either business or charitable contributions or medical expenses over the 7.5% Adjusted Gross Income level
- Prepaying state income tax estimate due January 15 of next year (be careful it does not trigger the Alternative Minimum Tax which would eliminate the advantage)
- Prepaying real property taxes due April 10 of next year (be careful it does not trigger the Alternative Minimum Tax which would eliminate the advantage)
- If you just barely miss being able to itemize deductions each year because the amount is not quite enough, accelerate deductible items into one year so that you can itemize deductions and then take the standard deduction the following year.

4. TIMING OF INVESTMENT DECISIONS:

- If you hold an investment that is profitable for over 12 months, then you are entitled to use the long-term capital gains tax rate, which generally is 15% for Federal income tax purposes. Collectibles are taxed at a 28% rate if lower than the

regular income tax rate. Otherwise, net short-term capital gains are added to other income and taxed at the regular income tax rate. California does not have a special capital gains tax rate.

- If you have investment losses and do not want to keep the investment, sell the stock before the end of the year and offset capital gain income and to the extent the losses exceed the gains, then being able to deduct up to \$3,000 against ordinary income. The excess loss is carried forward to the following year.
- Mutual funds typically distribute capital gains dividends at the end of the year. So if you buy shares late in the year, you may receive unexpected capital gains income that is not within your projected income for estimated taxes.

5. BE AWARE HOW THE AMOUNT OF YOUR ADJUSTED GROSS INCOME CAN LIMIT OR ELIMINATE SOME DEDUCTIONS OR CREDITS:

Some tax deductions/credits that are based upon adjusted gross income:

- Gross amount of itemized deductions
- Medical deductions
- Miscellaneous itemized deductions
- Rental property losses
- College expense deductins/credits

If you need to reduce your adjusted gross income to take advantage of some tax benefit, consider:

- Opening an Individual Retirement Account
- Creating a retirement plan if you are self-employed
- Payment of student loan interest that qualifies for deduction
- Payment of Tuition and feed that qualifies for deduction
- Opening an Archer Medical Savings Account
- Payment of medical premiums for self-employed individuals
- Payment of alimony in arrearage

6. BUSINESS EXPENDITURES:

- Timing of equipment purchases—in 2003, 2004, and 2005 up to \$100,000 of purchases of qualified property is deductible for Federal tax purposes (IRC §179). There is also 50% bonus depreciation for assets acquired after May 5, 2003. California allows only \$25,000 per year. Any difference is depreciated
- Bonus planning
- Retirement Plan contributions
- Income and Expense techniques described above also apply
- If there will be a loss deductible to the owner (Partnership, LLC or S Corporation), be sure the owner has enough tax basis to deduct the loss.

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