Year-end Tax Planning

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2013 return and in future years. To get you started, we've included a few money-saving ideas here that you may want to put in action before the end of the year. Contact us if you have questions about which ideas may be appropriate for you or if you want to discuss other tax-saving strategies.

- For 2013, the standard deduction is $12,200 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,100. If your total itemized deductions each year are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2014 to the end of 2013. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2014. But, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes.

- Charitable contributions are only deductible if you have proper documentation. For cash contributions of less than $250, this means you must have either a bank record that supports the donation (such as a cancelled check or credit card receipt) or a written statement from the charity that meets tax-law requirements. For cash donations of $250 or more, a bank record is not enough. You must obtain, by the time your tax return is filed, a charity-provided statement that shows the amount of the donation and lists any significant goods or services received in return for the donation (other than intangible religious benefits) or specifically states that you received no goods or services from the charity.

- If you're age 70½, or older, you can arrange to transfer up to $100,000 of otherwise taxable IRA money to a charity. Such a transfer is federal-income-tax-free to you, but you don't get to claim a charitable deduction on your Form 1040. However, the tax-free treatment equates to a 100% write-off, and you don't have to itemize your deductions to get it. Be careful—to qualify for this special tax break, the funds must be *transferred directly* from your IRA to the charity. Also, this favorable provision will expire at the end of this year unless Congress extends it. So, this could be your last chance.

- If you own your own business and have plans to buy a business computer, software, office furniture, equipment, or other tangible business property, you might consider doing so before year-end to take advantage of the temporarily increased Section 179 deduction and the temporary 50% bonus depreciation. For 2013, the maximum Section 179 deduction is $500,000. This means a business can often claim first-year write-offs for the entire cost of new and used equipment and software additions. In addition to the bumped-up Section 179 deduction, you can also claim first-year bonus depreciation equal to 50% of the cost (reduced by the Section 179 deduction claimed) of most new (not used) equipment and software placed in service during 2013. Unless Congress takes further action, the Section 179 deduction will drop to about $25,000 in 2014 and the 50% first-year bonus depreciation break will expire at year-end.

- Higher-income individuals will likely see their taxes go up this year. This makes it more important than ever to do the calculations to see where you stand before the end of the year. If it looks like you are going to owe income taxes for 2013, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your 2013 liability or, if smaller, 100% of your 2012 liability (110% if your 2012 adjusted gross income exceeded $150,000; $75,000 for married individuals who filed separate returns), penalties will be minimized, if not eliminated.

- Finally, watch out for the AMT in all of your planning. What may be a great move for regular tax purposes may create or increase an AMT problem.

Again, these are just a few suggestions to get you thinking. Please call us if you'd like to know more about them or want to discuss other ideas.