

## **Year End Tax Planning Opportunities**

Tax planning should be a year round activity, but deserves special attention as the end of the year approaches. While everyone's tax situation is different and there is no substitution for qualified tax advice, here are some ideas you should be sure to consider:

### **Personal tax issues**

- Delay taxation where appropriate. The individual income tax rates have remained constant for the past several years while the size of the tax brackets have been increased modestly. If you expect that your marginal income tax rate will be lower in future years, it may be beneficial to delay income (such as discretionary bonuses) where possible. Conversely, if you expect your marginal rate to increase in future years, it may be beneficial to accelerate taxable income into a year when your marginal rate is lower. In all cases, you should consider the timing implications of when you actually pay the tax.
- Review your capital gains and losses. Be sure to examine your transactions for this year to see if you have any net gains. If you do, consider selling some losing positions to offset them. In addition, you are allowed to use up to \$3000 of net capital losses to reduce your taxable income. Unused realized losses can be carried forward.
- Review your charitable contributions. If year-end charitable contributions are in your plans, consider contributing appreciated stock instead of cash. You get the deduction for the fair market value and avoid paying tax on the gain.
- Contribute to your retirement plan. The 2001 Tax Act raised the contribution limits for many types of retirement plans. Individuals aged 50 and over can even make "catch-up" contributions to IRAs and 401(k) plans. Be sure to take as much advantage as you can to secure your retirement years.
- Beware of the Alternative Minimum Tax. Originally enacted to force high-income taxpayers to pay tax, this complicated "additional" tax is catching many people unaware. If your income is relatively high (say \$125,000 or above) or if you have high levels of itemized deductions (especially income or property taxes), you may want to consult a tax advisor. The AMT can also apply to individuals with incentive stock options.

### **Business tax issues**

- Qualified retirement plans. Be sure to get the maximum tax benefits from any retirement plan where you are a participant. Consider making contributions to an IRA, even if the contribution will not be deductible. Getting funds into an IRA where the earnings are tax deferred will save you money.
- Control your wages. Many business owners are able to control when they pay themselves, especially year-end bonuses. Be sure to understand the "inter-play" between your business's and your personal tax situation to get the best solution.
- Maximize your deductions. Be sure to take all the deductions to which you are entitled. If you use your personal automobile for business or have a home office, review the rules to get the maximum benefit. Equipment purchases up to \$250,000 can be expensed in the year the equipment is placed in service rather than depreciated under Section 179. Be sure your records support any travel and entertainment expenses.