

# Ten Year-End Tax Planning Tips

“If I had only known about that new tax law, I would have done something before the end of the year!”

This common lament of taxpayers is often the result of simply not staying on top of the latest changes to the increasingly complex tax laws. But it doesn't have to be that way!

The National Society of Accountants (NSA) provides these “Top Ten Year-End Tax Tips” to help you avoid surprises and maximize their tax savings:

1. **Take stock of your stocks.** Review your current year stock and mutual fund sales to determine if you have a net gain or loss. If you have a net gain, then selling stocks that would produce a net loss may make sense. A net capital loss of up to \$3,000 can be deducted against other income, such as salary. Any excess losses can then be carried forward to future years.
2. **Watch out for the estimated tax penalty.** The IRS requires individuals to pay their taxes throughout the year with quarterly estimates, tax withholding, or both. If you don't pay enough during the year, you can be hit with an estimated tax penalty, which is equal to the interest rate for underpayments. Although it may be too late for this year, adjusting your income tax withholding can eliminate or reduce the penalty.
3. **Consider stock donations.** If you want to donate to your favorite charity but are short on cash, check out your stock portfolio. If you own stocks that would produce a large capital gain, consider donating them before you sell them. You can deduct the market value of the stock as a charitable contribution and you pay no tax on the appreciation.
4. **Reducing the tax on Social Security benefits.** People who receive Social Security benefits can be taxed on a high percentage of their benefits. Investing in T-Bills or CDs that don't mature until next year can lower the provisional income in the current year and lower the tax rate. Also, investing in growth stock that produces little income can have the same result.
5. **“Kiddie Tax” update.** The new tax law raises the age threshold for the “kiddie tax.” For 2006, any unearned income (interest, dividends, capital gain, etc.) received by a child under age 18 (previously age 14) that exceeds \$1,700 is subject to federal tax at the parents' top marginal tax rate. You might want to shift investments into growth stocks that produce little income, tax-free municipal bonds or municipal-bond funds, Series EE bonds, or CDs that mature in the next year.

6. **Installment sale of property.** If you are considering the sale of real estate property that was held for investment purposes, you could spread out the tax hit over several years with an installment sale. If you structure the sale into two payments, one in December and one in January, you spread the tax over two years instead of one. The second benefit may come from a lower adjusted gross income.
7. **Shift timing of deductions.** Consider maximizing your itemized deductions by “bunching” deductions. In order to get a tax break from itemizing deductions, you must have more in deductions than the standard deduction allowed by the IRS. For 2006, this is \$10,300 on a joint return and \$5,150 on a single return. If you are close to the standard deduction each year, consider accelerating all possible deductible expenses into every other year. Shift payments of medical expenses to the year they will exceed 7.5 percent of your adjusted gross income, pay two years of personal property tax and real estate tax in one year, or double up on your charitable contributions into one year.
8. **Watch business expenses.** If you deduct employee business expenses, your deduction is reduced by 2 percent of your adjusted gross income and you may lose the deduction totally because of the alternative minimum tax (AMT). The best strategy is to set up an “accountable plan” with your employer to cover all your business expenses in lieu of wages for the same amount. The reimbursements you receive will be tax-free, not subject to payroll taxes or alternative minimum taxes.
9. **Defer income until next year.** If it is possible to defer receiving income until the next year, you not only defer income tax on that income for another year but you may increase the value of your deductions for the current year if you have adjusted gross income limitations. Consider postponing bonuses, investment gains, or elective distributions from retirement accounts.
10. **See your tax professional.** Make an appointment with your tax professional BEFORE year end. Opportunities missed can mean cash in the bank. Don’t be one of the many taxpayers that look back and say, “If I only knew about this before the year end.”

You may have already received important tax documents for 2006. You will continue to receive information through January and early February. These documents will be used to prepare your tax return. Get organized now! Take an empty file folder or manila mailing envelope and write “**2006 Tax Documents**” on it. Keep it close at hand (in the general area where you open your daily mail), so you can file “Important Tax Documents” as you receive them. When you visit your tax preparer, you will be

NSA represents accountants who specialize in serving individuals and small-to-mid-size businesses. For more information about taking advantage of year-end tax tips, **contact Tim Metz, TJM CPA, Inc, at 602-432-5853, tim@tjmcpa.com.**

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