

Year End Tax Planning

FOR BUSINESSES:

- 1. December Billings**- We suggest you delay in sending statements until January, unless the business is showing a loss. If a loss, you probably want to bill accounts receivable as early in December as possible, hoping the income comes in before year end.
- 2. Business Expense Payments**- For cash basis businesses, if there is a profit, be sure that all expenses are paid by December 31st, even if it means a credit line loan to reduce tax liability. If there is a loss in the business, you may want to defer paying bills to January.
- 3. Children on the Payroll** - If your children are 18 and under, and you are operating as a sole proprietorship, make sure have actually written paychecks to your working dependents to your minor children. Make sure a time card or calendar is available and a reasonable wage has been paid. This would apply to work at a rental property in addition to business work.
- 4. Spouse on Payroll** - Taxpayer may want to pay a spouse a salary before year end so there is the possibility of the medical insurance being 100% deductible. A greater contribution can be made toward a retirement plan for the spouse.
- 5. Pay spouse 50%** of the fair rental value with a check before year end to save social security tax on spouse's 50% ownership of property used in the business.
- 6. Accrual Basis Taxpayers** - We will need the following information:
Accounts Receivable on 12/31 _____
Accounts Payable on 12/31 _____
Inventory (at cost) on 12/31 _____
- 7. Interest for Corporations**- Accrue or pay interest on loans from shareholders by year end.
- 8. Review equipment**. Obsolete equipment should be eliminated.
- 9. Review inventory**. Remove obsolete inventory.
- 10. IRA/Retirement Contributions** should be considered. (Keogh's must be set up by 12/31)
- 11. Employee bonuses** should be considered before year end.
- 12. Gifts** to employees or top customers can be given. Ie: turkey, gift certificates, etc.
- 13. Purchase of new equipment** - Watch luxury auto limitations because you cannot buy an automobile and expect to take full Section 179 write-off. However you certainly can use this rule (within limits) for equipment purchases.

14. Advertising- If the business is showing a loss, there is a possibility that advertising can be amortized, particularly if the expense is expected to provide a long term business benefit.

15. Research and Development - This is generally capitalized and added to the cost of new products. However, you may elect to deduct R&D currently.

16. Reimburse employees for corporate related expenses you may have incurred during the year. An acceptable plan requires that you submit records for payment. Have a current expense reimbursement form available to give to your employees.

17. Make sure to pay your accounting/tax bill in full for current year, for a full deduction.

FOR INDIVIDUALS:

18. Consider installment sale of assets, unless it is a 1245 property with much depreciation and as such there will be a lot of depreciation recapture. Consider a lease-option of equipment.

19. Credit Card Medical Payments- Do not overlook medical payments that were charged to a credit card. If a large amount of medical expenses were accrued throughout the year, you should consider paying the balance on your charge card before year end to take advantage of the tax benefits.

20. State Estimates- If you itemize deductions, pay the January estimated tax payments by December 31. A \$1000 payment in a 28% tax bracket is \$280 in your pocket.

21. Increased withholdings in November and December to eliminate a penalty of tax underpayments. Withholdings are prorated.

22. February Home and Business Real Estate Tax Payments- If you usually pay real-estate tax payments in thirds, you might want to consider paying the February payment prior to December 31st to move that deduction into the current year.

23. Charitable Contributions- Donate household goods and business assets before year end. You can deduct the value of items donated. Keep track of charity mileage.

24. Stock Losses and Worthless Securities. Dispose of stock that has a loss or worthless securities. Sell to a neighbor or non-relative for \$1.

25. Bunch Medical & Miscellaneous Deductions to Alternate Year-

- a. Payment of medical bill for parent or child who is not a dependent
- b. Cosmetic Surgery-not deductible

26. Maximize deductions by using credit line loan or refinanced mortgage to consolidate installment debt for 100% deduction.

27. Consider tax exempt investing to produce tax free income. This could possible make less social security income taxable.

28. Buy US Savings Bonds to defer tax for longer term, i.e. Series E and H.