

## 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 31<sup>st</sup>, 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 31<sup>st</sup> 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.