Individual Year End Tax Planning Ideas

As we approach year end, it's time again to focus on last-minute moves you can make to save taxes — both on your 2014 return and in future years. Here are a few ideas.

Maximize the benefit of the standard deduction

For 2014, the standard deduction is $12,400 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,200. Currently, it looks like these amounts will be about the same for 2015. 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 2015 to the end of 2014. 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 2015. But, watch out for the alternative minimum tax (AMT), as these taxes are not deductible for AMT purposes.

Consider deferring income

It may be beneficial to defer some taxable income from this year into next year, especially if you expect to be in a lower tax bracket in 2015 or affected by unfavorable phase out rules that reduce or eliminate various tax breaks (child tax credit, education tax credits, and so forth) in 2014. By deferring income every other year, you may be able to take more advantage of these breaks every other year.

For example, if you're in business for yourself and a cash-method taxpayer, you can postpone taxable income by waiting until late in the year to send out some client invoices. That way, you won't receive payment for them until early 2015. You can also postpone taxable income by accelerating some deductible business expenditures into this year. Both moves will defer taxable income from this year until next year.

Secure a deduction for nearly worthless securities

If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available, as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules for capital losses and the wash sale rules restricting the recognition of loss if the security is repurchased within 30 days before or after the sale).

Invest in tax-free securities

The most obvious source of tax-free income is tax-exempt securities, either owned outright or through a mutual fund. Whether these provide a better return than the after-tax return on taxable investments depends on your tax bracket and the market interest rates for tax-exempt investments. With the additional layer of net investment income taxes on higher income taxpayers, this year might be a good time to compare the return on taxable and tax-exempt investments. In some cases, it may be as simple as transferring assets from a taxable to a tax-exempt fund.

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.

Eight Tips for Deducting Charitable Contributions

If you are looking for a tax deduction, giving to charity can be a "win-win" situation. It's good for them and good for you. Here are eight things you should know about deducting your contributions to charity:

1. You must donate to a qualified charity if you want to deduct the contribution. You can't deduct contributions to individuals, political organizations, or candidates.
2. To deduct your contributions, you must file Form 1040 and itemize deductions.
3. If you get a benefit in return for your contribution, your deduction is limited. You can only deduct the amount of your contribution that's more than the value of what you received in return. Examples of such benefits include merchandise, meals, tickets to an event, or other goods and services.
4. If you give property instead of cash, the deduction is usually that item's fair market value. Fair market value is generally the price you would get if you sold the property on the open market.
5. Used clothing and household items generally must be in good condition to be deductible. Special rules apply to vehicle donations.
6. You must file Form 8283, "Non-cash Charitable Contributions," if your deduction for all non-cash contributions is more than $500 for the year.
7. You must keep records to prove the amount of the contributions you make during the year. The kind of records you must keep depends on the amount and type of your donation. For example, you must have a written record of any cash you donate, regardless of the amount, to claim a deduction. It can be a canceled check, a letter from the organization, or a bank or payroll statement. It should include the name of the charity, the date, and the amount donated. A cell phone bill meets this requirement for text donations if it shows this same information.
8. To claim a deduction for donated cash or property of $250 or more, you must have a written statement from the organization. It must show the amount of the donation and a description of any property given. It must also say whether the organization provided any goods or services in exchange for the contribution.