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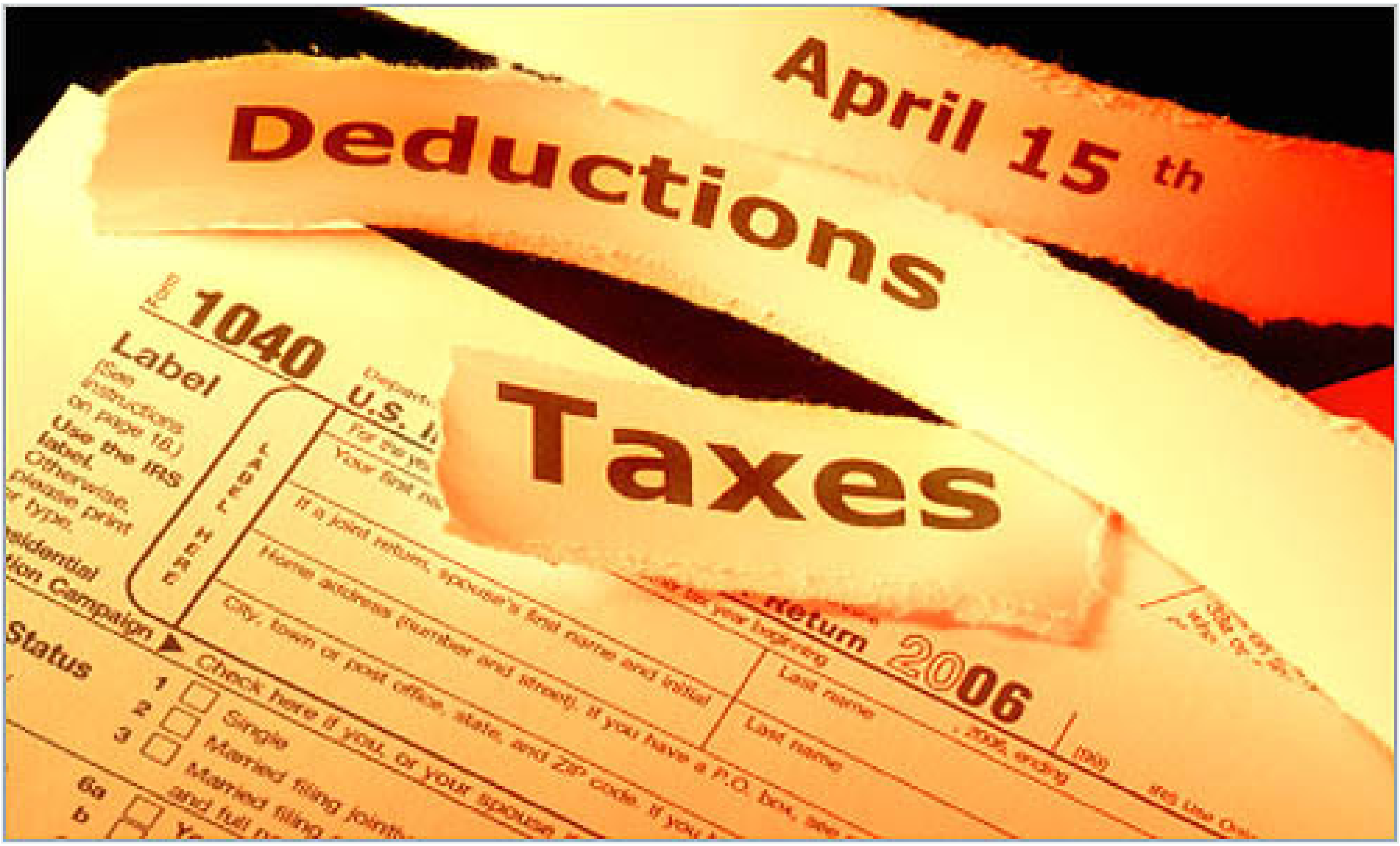
Ken Berry, JD • Oct. 09, 2014



[This is the first of a series about year-end tax planning and preparation.]

Naturally, everyone's tax situation is different and the landscape changes year to year. However, absent special circumstances such as pending legislation or drastic economic swings, the tried-and-true strategy of accelerating deductions into the current tax year and postponing income to the following year usually works.

And why not? The increase in deductions can help offset the client's current tax

- **State and local taxes:** For amounts due on January 1, 2015, a prepayment can boost your deductions for 2014. If the optional state sales tax deduction is reinstated, purchases late in the year will increase the deductible amount.
- **Mortgage interest:** Similarly, prepaying a January 1 mortgage bill may be beneficial by effectively providing a deduction for 13 months of interest for one year. But then you must keep prepaying each succeeding year to maintain a regular schedule.
- **Medical expenses:** If a client is over or close to the 10%-of-AGI threshold for 2014 (7.5%-of-AGI if age 65 or over), pushing elective expenses into 2014 makes sense. Typically, clients should bunch these expenses in the year they'll do the most tax good.
- Miscellaneous expenses: As with medical expenses, once you clear the floor for the year – in this case, 2% of AGI – any deductible expenses accelerated into this year are pure gravy. This includes employee business expenses and production-of-income expense like your tax assistance fees.

On the other side of the ledger, what sort of income can you postpone? Here are several common examples.

- **Short-term investments**: Income from certain investments, such as short-term Treasury bills and certificates of deposit (CDs), may be timed so the interest is taxable in 2015 instead of 2014.
- **Compensation**: Depending on the situation, you may be able to have your employer wait until 2015 to pay you wages or commissions, thereby delaying taxable income for a year. Self-employed individuals may have more control over timing (e.g., by sending out invoices later).

- **Year-end bonuses:** When you're in line for a year-end bonus, it isn't taxable in

These lists are by no means all-inclusive and other factors and special rules may come into play. For instance, itemized deductions may be reduced for upper-income clients and the alternative minimum (AMT) tax might cause further complications. We will delve into these issues in greater detail in future articles.

Bottom line: Tax planning certainly isn't a one-shot deal but clients will be most interested in what you can do for them right now. General goodwill for your practice, as well as more revenue, by approaching clients before they contact you.

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