CPA Practice Advisor

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The end of the year is a time to reflect upon the past and plan for the future, including planning for income and estate taxes. Below, we present some important income and estate tax items to consider before the end of the year.

Contributions to a Retirement Plan

Self- employed individuals can establish and fund a qualified retirement plan. There are many different types of plans including Simplified Employee Pension plans ("SEPs"), Solo 401(k) Plans, Savings Incentive Match Plans for Employees ("Simple

Plans"), profit sharing plans, and defined benefit plans. Each plan has its own

Prepaying State Income Taxes

State income taxes are deductible when paid. If you have a state estimated tax payment due January 15, 2015, consider accelerating that payment to sometime prior to December 31, 2014 in order to deduct the payment in 2014. However, keep in mind that state income taxes are not deductible for alternative minimum tax purposes.

In addition, a new wrinkle is the impact that state income taxes have on the net investment income tax. A careful analysis of your 2014 and 2015 tax liability (including your alternative minimum tax and net investment income tax) should be done to determine if it is beneficial to prepay state income taxes.

Evaluating Year-to-Date Capital Losses and Year-End Capital Gains

Capital losses can offset capital gains plus $3,000 of ordinary income. Now is the time to review your investment portfolio and your year to date capital gains and losses to determine if you should realize any more losses and/or gains. If you have an overall net loss so far, consider selling some appreciated positions to lock in the gains. If you have an overall net gain so far, consider selling some loss positions to reduce your potential tax liability. Triggering capital losses could also reduce your net investment income tax. You could buy back the securities sold at a loss provided you purchase the securities either more than 30 days before or 30 days after the sale. Capital losses in excess of capital gains plus $3,000 can be carried over. However, some states do not permit carryovers of capital losses.

Charitable Donations

If you are charitably inclined, a donation to a charitable organization can reduce your tax bill. Checks to charities must be in the mail on or before December 31, 2014, while donations charged to a credit card can be deducted if charged in 2014, even if not paid until 2015. Consider giving appreciated securities to a charity instead of cash. The tax deduction for a contribution of appreciated securities is generally equal

taxpayers can give up to $28,000. This amount is free of any gift or inheritance tax and the recipient is not subject to income tax on the gift. The gift can be any type of asset – cash, check, stock, artwork, etc. However, it must be a gift of a "present interest" – meaning that the recipient must be able to access the property now, and not just in the future.

Annual exclusion gifts are a simple yet effective way to potentially significantly reduce one's estate tax. For example, a married couple with three children and nine grandchildren can annually give away $336,000 ($28,000 to each of their twelve descendants) without paying any gift tax. By following this practice for five years, they would have removed $1,690,000 from their taxable estate.

An annual exclusion gift made around the holidays would likely be much appreciated.

Children or Grandchildren Education Planning

Consider opening and funding a section 529 plan. There are many different plans available, all of which are essentially a savings plan for college.

Earnings in a section 529 savings plan and qualified distributions from it are not taxed. Qualified distributions are distributions used to pay for a person's qualified higher education expenses at an accredited post-secondary educational institution offering credits towards a degree (associate's, bachelor's, or graduate/professional degree) plus certain vocational institutions. Qualified higher education expenses are "tuition, fees, books, supplies and equipment." Certain room and board expenses are also considered qualified higher education expenses

Contributions to section 529 plans qualify for the annual exclusion described above. In addition, you are allowed to fund up to five times the annual exclusion ($70,000) in one year and treat the transfer as made over five years. Married taxpayers can fund

- Have children been born since your documents were last updated?
- Has there been a divorce?
- Has there been a marriage?
- Are the named trustees still close confidants?

Now is the time to consider all the above items before it is too late. Should you need assistance with your year-end income and estate tax planning speak with your trusted tax advisor.

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