FRONTIER

WEALTH MANAGEMENT

YEAR-END TAX PLANNING STRATEGIES FOR INDIVIDUALS AND BUSINESSES

As we begin December, your thoughts might be starting to turn to the holidays: parties, shopping and time off from work to spend with friends and family.

One thing that probably isn't high on the list of things you want to think about right now is taxes — but it should be. You may be able to make some financial moves between now and the end of the year that could save you significant money when you file your 2015 tax return next spring.

STRATEGIES FOR INDIVIDUALS

One common year-end tax planning strategy for individuals is to defer income into next year and accelerate deductions into this year. This can reduce the total amount of tax that you owe for 2015. To defer income, you could ask your employer to pay a year-end bonus the first week of January instead of the last week of December. And to accelerate deductions, you could pay property taxes early, or make charitable contributions in December instead of January. Other strategies to reduce income include maximizing workplace retirement plan contributions, establishing and funding self-employed business retirement plans, funding a Health Savings Account (if qualifications are met) or Flexible Spending Account, and funding Dependent Care accounts. These are frequently referred to as "Cafeteria Plans."

If you own stock or other assets that have appreciated in value, consider donating these to charity instead of donating cash. This could enable you to avoid paying capital gains taxes and still claim a tax-deduction. Then you can reinvest the cash you would have donated to charity into other securities.

The end of the year is also a common time to do some tax-loss harvesting. With this strategy, you sell securities in taxable accounts that are currently worth less than what was paid for the investment. You can then use this loss to offset any gains you may have realized on other investments you've sold this year. This could result in no capital gains being incurred and even offset up to $3,000 of other income. Healthcare reform has made reducing capital gains especially important for individuals who are subject to the Affordable Care Act's net investment income tax (or NIIT). This is because net income from capital gains and several other sources of passive income may now be subject to an additional 3.8 percent surtax if your modified adjusted gross income (MAGI) exceeds $200,000 (or $250,000 if you're married and file jointly).

STRATEGIES FOR BUSINESSES

The same defer income-accelerate deductions strategy noted above for individuals can also apply to businesses. If your business is a sole proprietorship, partnership, or S corporation, your attributed net income generated by the business is reported on your personal tax return and taxed at your personal tax rates. Assuming your business qualifies for and uses cash-method accounting, you can accomplish this strategy by waiting until the end of the month to send out December invoices. Meanwhile, you can accelerate deductions by pre-paying some expenses before the end of the year.

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Keep in mind, however, that deferring income and accelerating expenses isn't always the best year-end tax strategy. For example, if you anticipate that your marginal tax rate will be higher next year than it is this year, you might want to take the opposite approach. While this will increase your tax bill for 2015, it could reduce the overall amount of tax you pay over 2015 and 2016. Note, 2016 individual federal income tax brackets will not be much different than 2015 tax brackets.

WOne thing to keep a close eye on between now and the end of December is whether or not business tax extenders like the Section 179 deduction (including business vehicle depreciation and real property expenditures), 50% bonus depreciation, and Research and Development (R&D) tax credits are again renewed, as have been done in previous years. These business tax breaks expired at the end of last year, but many expect Congress to renew them retroactively before the end of this year. However, this might not happen until close to the end of the year, so you'll have to act quickly if they are renewed.

In the meantime for 2015, you can currently expense and deduct up to $25,000 in equipment that you purchase and place into service this year, regardless of whether or not Section 179 deductions are renewed.

Last, for small business owners and those who are self-employed, make sure you are taking advantage of retirement plans available to you, such as a SEP IRA, SIMPLE IRA, or Individual 401(k). Not only could this enable current-year tax savings, it obviously helps prepare for retirement.

Give us a call if you'd like to schedule an appointment to discuss year-end tax planning strategies in more detail.
