Lynn's Top Five

FIVE YEAR-END TAX PLANNING TIPS FOR YOU

By--- Lynn Ballou, CFP, EA

Normally this time of year, we are getting ready for the fun annual round of parties, family get-togethers and shopping! But lurking just underneath the surface of all that frivolity is that nagging question: isn't there something I should be doing for my taxes before the end of the year?

Much press and air time is given to this topic by many famous (and not so famous!) pundits. In this column, we'll explore some of the less obvious year-end tax savings ideas for you to consider.

1) ACCELERATE DEDUCTIONS INTO 2007 – OR NOT? Almost every advisor out there will tell you that a tried and true method of saving money on your income taxes this year is to accelerate as many deductions into this year as possible. But what if you subject to that nasty Alternative Minimum Tax (AMT)? Originally designed to keep extremely wealthy individuals from taking too much advantage of tax breaks, this "stealth tax" now affects an alarming and increasing percentage of taxpayers who would hardly consider themselves part of the wealthy elite! If you are already fairly deeply into the AMT, accelerating any more itemized deductions might be useless. One of our clients was contemplating prepaying her January state income tax estimated payment into December. After having her tax advisor run the numbers, she learned that doing so would not lower her taxes at all! Instead, her tax advisor recommended that she accelerate some of her self employment income into 2007. Now that's a switch!

2) CHARITABLE GIFTING: THINK APPRECIATED ASSETS! Lamorinda is generally a charitable community. For those of you who are contemplating making year-end donations, you should really take a close look at donating highly appreciated assets from your investment portfolio rather than writing a check. A client recently mentioned to us that she wanted to give her favorite charity a check for $1000. She had the available cash, but she also had some very low basis stock. After checking in with her CPA to verify the numbers, we recommended she gift the stock instead of the cash. The organization was thrilled to have the gift and she was thrilled to make a difference with a tax smart strategy.

3) COLLEGE FUNDING – A MOVE YOU CAN DO BEFORE YEAR END – LAST CALL! Recently Congress effectively undid one of the most popular forms of college funding: gifting appreciated securities to your students and having them sell these securities in their own, hopefully much lower, tax bracket. Sadly, starting next year, dependent children under age 19, as well as dependent children who are age 19 through age 23 and full-time students, will be taxed at their parent's highest marginal bracket for investment income in excess of $1700 --- ugh. So, for taxpayers whose dependent kids are age 18 – 23 by the end of this year, you have until the end of this year to use this technique before it disappears for good (or until Congress changes their minds again!). One interesting note: if a college student is providing over half their own support and are therefore not a dependent, they will not be taxed at their parents' highest marginal rate on investment income….hmmm….maybe time to set some of these kids free!

4) RMD: THIS YEAR OR TWO NEXT YEAR? You probably are aware that (in most cases) you must start withdrawing money from your retirement accounts when you turn 70-1/2 under the Required Minimum Distribution (RMD) rules. However, in that first year, you can wait until April 1st of the year after you turn 70-1/2 to take that first distribution, but then you must, in that same year, take your next distribution by year end. Good idea to double up in one year? Maybe, and maybe not: it depends on how that extra income --- i.e. two RMD payouts --- in the second year affects your tax bracket and how well your money is growing in the meantime. Best idea: run the numbers before you decide. Also, when you do take an RMD, don't forget that you can choose to take the assets out in kind rather than in cash. It may make sense to take that highly appreciated, publically traded stock out in cash and repurchase it in your after tax account with a higher basis, while a well performing investment that's closed to new purchase may be a very good in-kind distribution choice since you can't buy it anymore.

5) CARS: MAYBE STILL A GOOD CHARITABLE CONTRIBUTION!: There sure was a lot of press recently about the loss of the car as a charitable deduction. However, as we learned from CPA Linda LaHonta of Moore and Baker in Walnut Creek, "the amount of the charitable deduction for a donated vehicle has been greatly reduced UNLESS the charity plans to use the vehicle for their charitable activities. If you are thinking of donating a vehicle to charity inquire whether the charity plans to sell the car or use it themselves and if you find a charity that plans to actually use the car, this may yield a bigger tax deduction for you."

So, as a final comment I'd like to suggest that while you keep reading all those great year-end tax tip columns (including mine!), be sure to pick and choose what you do carefully. This is the time of year when your trusted tax advisor and team is invaluable. They can help you sift through all the free advice floating around out there and help you concentrate on those ideas that will really help YOU personally so you can have a very Happy Holiday Season! Enjoy!

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