IT'S NEVER TOO EARLY TO START

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Tax planning begins with setting year end goals and implementing action to achieve the following:

- Reduce the current year tax liability.
- Defer the current year's tax liability to future years.
- Where possible, be taxed on long-term capital gains.
- Increase availability of cash for business or personal needs by deferring your tax liability.
- Maximize retirement contributions.
- Maximize the amount of money available to fund your children's education.

Business Considerations

Equipment purchases placed in service during the current year can be expensed for federal tax purposes in an amount up to $500,000 under Internal Revenue Code Section 179. The purchased asset can be financed to conserve working capital and still qualify for expensing.

New equipment purchases also qualify for 50% bonus depreciation which, in addition to Section 179 utilization above, can, in effect, write off most of the asset in the year of acquisition.

Retirement planning includes making tax deductible contributions and having your contributions grow tax deferred until withdrawn. Self-employed individuals and their spouses should maximize their retirement contributions.

Accrual basis taxpayers should, when possible, defer year end billings and accelerate expenses before the end of the tax year. Insurance costs can be partially recorded as assets for book purposes yet expensed for tax purposes as long as the policy is entered into during the tax year and not necessarily paid for.

Qualified small business stock can qualify for preferential tax treatment including a deferral of gain when the proceeds are used to buy other qualified small business stock and ordinary loss treatment, rather than capital loss treatment when sold for a loss.

Individual Considerations

Passive losses are losses from a business activity in which you do not materially participate. These losses are generally suspended and not currently deductible. If you do not materially participate and you have passive losses that are subject to disallowance, there are things that you can do to convert the disallowed losses into tax saving deductible losses. The best way is to sell the passive activity which has suspended losses through a sale to an unrelated third party. The losses become fully deductible when the activity is sold, including any loss on the disposition.

The sale of a principal residence is eligible for an exclusion of up to $500,000 of the gain to be tax free for married filing jointly couples. Other taxpayers can exclude up to $250,000 of the gain.

To qualify for the full amount of the exclusion you must have owned your home for at least two years and used it as your primary residence for at least two years during the five year period ending on the date of the home sale. A surviving spouse who has not remarried and sells a principal residence within two years from the date his or her spouse died can exclude $500,000 of gain rather than $250,000.

From an estate planning standpoint the annual gift tax exclusion is $14,000 for individuals making the gift and $28,000 if you are married. These gifts do not eat into your lifetime exclusion of $5,450,000 for single individuals and $10,900,000 for married couples. By making gifts annually to any number of your relatives or friends, you could end up transferring substantial amounts out of your estate.

You can directly pay unlimited tuition and medical expenses free of any gift taxes. This exclusion is in addition to the annual gift exclusion. Payments can include health insurance premiums and tuition for elementary school through graduate school. You must make these payments directly to the educational organization or medical provider.

Tax planning should begin around the nine month point of the year to allow time to implement your plans and maximize the retention of your business and personal net worth.

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