Getting ready

Considerations for year-end tax planning **By Peter A. Bellini**

Although the April 15th tax deadline is a few months away, the time is now to consider a few tax strategies and planning opportunities that can save you money and make the information-gathering process much easier.

Tax planning

Whether you utilize a tax professional or you do it yourself with software, a tax projection prior to year-end is an excellent way to position yourself to make decisions about tax planning opportunities and avoid surprises. The numerous deduction and credit phase-outs, along with the ever more prevalent alternative minimum tax (AMT), can make a simple equation much more complex.

Each year, hundreds of thousands of additional taxpayers are subject to AMT, and more than 4.5 million taxpayers will pay AMT in 2005. Accelerating deductions into the current year and deferring income to the following year has always been a basic tax strategy, but the AMT has diluted the effectiveness, and in many cases, without proper planning and projections, it can backfire.

Retirement planning

With an increase in limits this year, maximizing contributions to deductible IRA accounts and employer-sponsored 401(k) plans is an excellent strategy to get current tax benefits and save for the future. IRA contribution maximums increase from $3,000 to $4,000, and if you are 50 or older by year's end, the amount becomes $4,500. If you participate in a 401(k) plan, the contribution limit rises to $14,000 or, if you are 50 or older by year's end, $18,000.

If you are self-employed, there are several options for retirement planning that can provide excellent tax savings and the ability to put away substantial dollars for the future.

Capital gains and losses

If you have underperforming securities you have thought about selling, the time may be now to lock in those losses. Any realized losses can offset capital gains from other sales, up to a net loss in any one year of $3,000, carrying forward losses above $3,000 to the following years.

Also, take into consideration the substantial difference in tax rates between short- and long-term capital gains. If you are in the highest federal tax bracket (35 percent), short-term capital gains get taxed at that rate as ordinary income, while long-term capital gains are taxed at the maximum rate of 15 percent.

This rate differential of 20 percent can be beneficial when managing the tax aspect of your investment portfolio and making year-end strategic decisions. The holding period for a security to obtain long-term capital gain treatment is greater than 12 months.

Education

The tuition deduction, Hope Scholarship credit and Lifetime Learning credit are still available for dependents in college but subject to significant adjusted gross income and AMT limitations.

The situation might make more sense for the student to claim the deduction, but be cognizant of the support and exemption rules that exist, which govern who can claim an exemption for a student.

In addition, a 529 savings plan can provide a modest state tax savings while allowing parents, grandparents or other relatives to save for a child's education essentially tax-free. You pay no taxes on the funds as they grow, and if withdrawn for qualified higher education expenses, they are exempt from federal and state taxation.

Taking the time to organize your tax records, keeping them in a central location and ensuring that they are categorized will assist you once you begin the preparation phase of your tax returns.

If you utilize a software package to track and pay household or business expenses, reports should be available to reconcile your annual expenses, who was paid and for what reason.

PETER A. BELLINI is a CPA with Skoda, Minotti & Co., a Cleveland-area financial services firm. Find out more at www.skodaminotti.com.

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