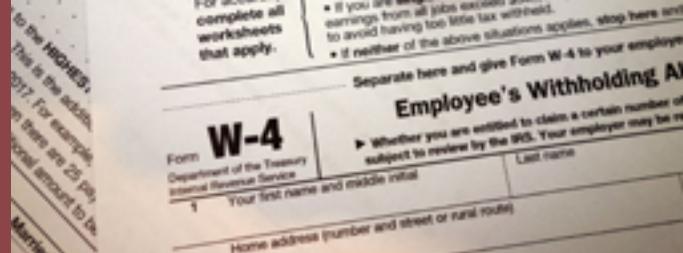


# TAX PLANNING TO LOWER YOUR TAXES



## MINIMIZE OR AVOID THE ALTERNATIVE MINIMUM TAX

The Alternative Minimum Tax (AMT) is a tax that was originally intended to ensure that wealthier taxpayers with large write-offs and tax-sheltered investments paid at least a minimum tax. However, years of inflation have driven everyone's income up, increasing the number of taxpayers that have been affected by the AMT.

Your tax will be the higher of the tax computed the regular way or the Alternative Minimum Tax. Anticipating when the AMT will affect you is difficult, because it is usually the result of a combination of circumstances. Tax reform has, at least temporarily, eliminated some of the deductions that typically caused taxpayers to pay AMT, and has provided more generous exemptions from the AMT, but transactions involving the following may still push you into the AMT calculation:

- Incentive stock options,
- Limited partnerships,
- Tax-free income from private activity bonds,
- Depreciation, and
- Business tax credits only allowed against the regular tax.

All of these can strongly impact your bottom line tax and raise a question of possible AMT. Planning for the AMT gives you the opportunity to alter your deductions and transactions and avoid or minimize the added tax burden of the AMT.

## YOUR TAX PLANNING BAROMETER

Consider tax planning BEFORE you make a decision about any of the following:

- Borrowing money for any purpose
- Paying off a loan
- Contributing to or taking funds from any type of retirement plan

- Buying or selling any kind of property:
  - (1) A vacation home
  - (2) Rental property
  - (3) Any other real estate
  - (4) Stocks and bonds
  - (5) Partnership interest
  - (6) Vehicles (autos, motor homes, boats, airplanes, etc.)
  - (7) Your personal residence
  - (8) A business or business assets
  - (9) Tax shelter
- Retiring
- Getting married
- Negotiating a divorce agreement
- Making investments where your participation will be minimal
- Making a large gift to your child or other relative
- Changing the form of your business to a partnership or corporation
- Incurring business expenses
- Holding an uncollectible note



## CLIENT INFORMATION SERIES



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# TAX PLANNING TO LOWER YOUR TAXES

## TAX PLANNING HELPS YOU SAVE \$\$\$

All planning involves looking ahead to reach a specific goal. People are inclined to make careful plans when they consider making a home purchase, accepting a new job, taking a dream vacation, or investing for retirement. But when it comes to taxes, they often leave matters to chance, perhaps not realizing the tax savings that can result. **THE GOAL OF TAX PLANNING IS TO SAVE YOURSELF MONEY!**

One reason taxpayers may be hesitant to think about serious tax planning is a misconception that it is somehow unpatriotic. Yet even a well-known tax court judge made it clear that the issue goes beyond patriotism. He stated:

*“There is nothing sinister in so arranging one’s affairs as to keep taxes as low as possible...for nobody owes any public duty to pay more than the law demands; taxes are enforced extractions, not voluntary contributions.”*

Every taxpayer has the right AND the responsibility to lower his/her tax bill using a number of different legal methods. Tax planning is the tool that helps you evaluate your financial situation in light of current laws to make sure that you get the benefit of all deductions you’re entitled to.

## WHEN TO BEGIN?

To gain the most benefit from your tax planning, you need to make it a consideration all year long. However, many taxpayers find that fall is the best planning season. By then, law changes and new tax rates are usually known, and there’s still enough time to make adjustments before year’s end.

You should strongly consider tax planning if any of these items on your return are significantly more or less than last year:

- Income
- Deductions
- Income Tax Withholding
- Estimated Tax Payments

## PLANNING STRATEGY – A MATTER OF TIMING

Most planning strategies involve questioning WHEN to complete transactions that affect taxes. **EXAMPLE: Is NOW the BEST time to buy a car for my business, or should I wait until next year?**

Planning strategy is often built on two basic timing precepts:

### Rule 1

Payment of tax owed on income transactions should be postponed as long as possible (provided no penalty is incurred).

When you postpone the payment of tax on a transaction (e.g., an installment sale), it’s almost like getting an interest-free loan from the government. You have the use of the money until the postponed tax must be paid.

However, sale transactions can also produce hidden dangers from tax underpayment penalties. You will want to plan ahead carefully when you have a sale to be sure that you are covered as far as any penalty is concerned. Your tax advisor will be able to make the best suggestion.

### Rule 2

Year-to-year tax bracket changes should be considered when making decisions to pay deductible expenses or receive taxable income.

Law change or fluctuations in your income and expenses may shift you to different tax brackets from year to year. As a general rule, it’s best to receive income in years your tax rates are low, and pay deductible expenses when they are high.

## ADVANTAGES OF TAX PLANNING

- By planning ahead, you can adjust withholding and estimated tax payments to help eliminate or reduce tax penalties. Making adjustments may also help you postpone payment of tax (you’ll be taking advantage of Rule 1) or let you shift some income or deductions to different tax years to at least lower your taxes (in other words, you’ll be making use of Rule 2).
- If you have a casualty loss in a presidentially declared disaster area, shifting income from one year to another may allow you a greater loss deduction. In some cases, you can even choose in which year to claim the loss.
- Tax planning helps you evaluate whether a deduction will really benefit you. Many taxpayers like to make their last state estimated tax payment in December so they can get a federal deduction for it in the current year. This strategy is often a good one, but under certain circumstances, you gain nothing tax-wise. Planning can help you tell for sure!
- Buying and selling property create all kinds of tax planning opportunities. For example, if you expect to sell real property at a gain in the near future, your planning should question the timing of the sale closing AND whether it’s best to structure the sale so you report your gain all at once or over several tax years (i.e., an installment sale). Another tax break available for property dispositions is the so-called tax-deferred exchange. If you intend to buy another property similar to the one you sold, your plans should consider how an exchange could work for you. You might also consider investing the gain from a sale into a qualified opportunity fund which can defer the gains to as late as 2026 plus provide other tax benefits.
- Retirement decisions can cost a lot in extra tax dollars if you don’t take the time to develop a sound tax plan. **BEGIN THE PLANNING WELL BEFORE YOU’RE**

**SCHEDULED TO RETIRE TO MAKE SURE YOU COVER ALL THE OPTIONS.** For example, say you’re an employee and your employer offers you a choice between getting your pension as an annuity or as a lump-sum payout. Your planning needs to include crunching numbers to determine the best way to go. You might be eligible for certain special averaging calculations that apply to pensions and can save a lot on taxes! Or perhaps a rollover to an IRA needs to come into the picture. Planning will help you find the best answer!

- The tax law provides special breaks for home sale gains, and planning can help make sure you qualify for them. Homeowners may exclude all (or a part) of a gain on a home if they meet certain occupancy and holding period requirements. Be sure to check before finalizing a sale to make sure you meet the necessary qualifications.
- Borrowing funds creates interesting tax planning opportunities. The interest on many loans is deductible. Right? NOT ALWAYS! Ensure you are able to deduct the interest, and do your planning homework before you sign on the dotted line!
- Tax planning is a must when there are property settlements due to divorce situations. Because of the manner in which the tax law handles transfers of property between spouses, what appears to be a fair split on the surface can turn into just the opposite in the long run.
- When it’s time to purchase business equipment, plan first. The tax law contains numerous options on how to deduct the costs, and has complicated rules about computing depreciation on business property purchased in the last quarter of the year. Timing of your purchases could be vital to ensure that you get the most from your expenditures.

