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Tax Talk - November 2015… planning…

Year-end planning – how is this year different than other years?

As we approach year end, it is time to review tax planning for the year. Take a look back on year 2015. Is there an unusual transaction that took place during the year? If so, is this something that we should be talking about in the next several weeks? For example, did you experience gains or losses from sale of property? Did you receive an inheritance? Did you receive a retirement distribution or compensation for which there is not adequate tax withholding? You may be curious as to how this will impact your return which is due next April. However you may also want to consider if there are tax saving measures that can be taken before the year end. Let's stay in touch!!!

Why is tax planning and tax projecting more important now? We would all like to know whether we will owe tax in April or whether we will receive refunds. One goal is to avoid the stress that comes along with last minute surprises. That is especially true when it comes to cash flow. What really makes the difference is that after 2012, the tax rates are on the rise. The tax brackets have increased. More importantly, there is an additional 3.8% tax on certain investment income including passive activity income. This surtax applies to higher income taxpayers. This additional 3.8% tax makes year-end tax planning worthwhile in certain cases.

Planning – looking forward!

Year-end is not the only time to consider talking with us. In certain cases, the time to discuss tax planning is before making an investment. This is especially true with real estate investments. It is also true with business startups. The 3.8% surtax and the passive activity rules should definitely be considered in the context of small business ventures and rental properties.

Estate planning, retirement planning, retirement plan distribution planning and charitable giving strategies are just a few additional areas that you should think about every few years, if not annually. Note that teamwork is the key to adopting and monitoring your plans. Your job is to check in with your advisors periodically to make sure that you are on track with your goals and objectives. Everyone is different. Some folks will lean on their investment adviser; others will look toward their attorney or accountant and still others will depend on family or close friends. To establish an initial plan is great but it is also very important to monitor the plan periodically. That routine monitoring could include a simple annual email or phone call to your team of trusted advisors.

See attached Western CPE "eTax Alert" which discusses estate planning in the context of two celebrity deaths. Each dies unexpectedly without following through completely with the proper estate planning. I hope you find this information interesting and helpful.

Continued…Tax Talk - November 2015… reminders

- In January, you will start to receive tax reporting documents. We suggest that you set aside all tax related documents in a folder or large envelope immediately upon receipt.
- We will be sending out organizer booklets in mid-January. Not everyone utilizes the booklets. That is fine. However, we are required to obtain a signed engagement letter from each client. We will remind you about signing and returning the signed engagement letter.
- Get an early start on gathering lists of income and deductions where it applies to your situation. Call us if you need suggestions on how to organize your data. Here are common lists that may need to be compiled:
    - Moving expenses – if you moved more than 50 miles from your old home and your old employer, you should gather a list of moving expenses and travel costs.
    - Business income and expenses – now is the time to start to bring your bookkeeping records up to date. In many cases if you log your expenses on a monthly basis, you will make your life easier at year end. Try to stay current.
    - Rental income and expenses – same story, look at your records. Also think about what you can do to make the bookkeeping aspect easier for 2016. Is it time to switch from the "shoebox" method to using excel, quicken or QuickBooks?
    - Employee business expenses and partner out of pocket expenses need to be gathered. Very important technical note here: employee business expenses and partnership business expenses must be reasonable business expenses. More importantly, claiming a deduction for such expenses are only allowed if the expenses are not eligible for reimbursement by the employer or partnership.
- Do not forget about the charitable contribution rules!
    - Timing of donations – consider making contributions before year end. If you are planning to make contributions in early 2016, it makes sense to make those donations now by 12/31/2015 to get the 2015 tax deduction. Do this unless your income is expected to be much higher next year.
    - How to make donations – there are lots of ways to make donations. The common thread is that each donation that you plan to deduct on your 2015 return must be supported by documentation. Cash donations should be supported by cancelled checks or donee acknowledgements. If the donation amount is $250 or more, you <u>must</u> have a signed acknowledgement in hand before the tax return is filed. Otherwise, IRS will disallow under audit. We suggest that you collect any acknowledgements and forward to us when you submit your tax information. We can retain a copy in our files which will be helpful in the rare event of audit.
    - Donations via employer payroll deduction – please retain your final year end paystub and also a record of the pledge document.
    - Volunteer activities – don't forget that if you perform volunteer activities for nonprofit entities, out of pocket expenses, such as, supplies, travel, or mileage should be summarized. That is a deduction which is sometimes overlooked. We need to know about your volunteer related expenses!
    - There are more complicated rules and requirements if (a) you donate more than $500 of noncash items –we need the details of your noncash donations, and (b) if you donate more than $5000 of noncash items – there generally might be an appraisal requirement. Please get in touch if you are considering a donation of more than $5000 of tangible personal property.
    - Using appreciated securities that have been held more than one year is a great technique to minimize income tax. Let us know if you would like more information on this tax strategy.