

(Last Minute) Year-End Planning Tips
By Gary Case

As we hurry through the holiday season, many of us have yet to turn our attention to next year, and the opportunities and challenges 2006 will present. From an income tax saving standpoint, it may make sense for you to target additional tax savings, either by generating tax deductions for the 2005 tax year, or by pushing income into the 2006 tax year. Strategies to potentially generate income tax deductions for 2005 include:

- Pay any state income tax or property tax you may owe prior to December 31st—you can then generally deduct the amount paid against your federal taxes—pay your January mortgage payment in December
- Put that bonus into a traditional IRA and deduct the amount of your contribution
- If you had a windfall of ordinary income or capital gain, consider funding a plan known in IRS terms as a Welfare Benefit Plan, found in section 419 of the IRS code—you can generally deduct your contribution to this type of plan—funding must occur through a business entity
- If you own a business, establish and contribute to a qualified plan—SIMPLE IRAs and Simplified Employee Pension (SEP) plans are two common plans
- Check your investments for losses that can generate income tax savings—selling investments with losses may generate deductions (and you can wait a month and buy back the same investment, if you still want to own it!)
- Conversely, if you have appreciated assets and a favorite charity (make sure it is “qualified” for tax deductible contributions), you can donate the asset “in-kind” to that charity and pay no tax on the unrealized gain
- Purchase assets for your business and take advantage of IRS “section 179” deductions
- Have your tax preparer evaluate if you are subject to the Alternative Minimum Tax and adjust as necessary to minimize it’s impact
- If you bought a large item this year that was subject to sales tax, you may want to deduct that tax against your federal return (as opposed to deducting your state income tax)

A few other year-end tips:

- Spend your flexible spending account from work—if you don’t, your company keeps the money
- See if you qualify for education expense deductions
- Make 2005 charitable deductions with a credit card (AND pay it off next year!)
- Tax credits are a dollar-for-dollar reduction in the tax you owe—familiarize yourself with all the tax credits available to you

Even last minute tax planning can help lower your income taxes. Don’t hesitate to contact your financial planner or tax professional for more information on how you can lower your 2005 income taxes!

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