

Tax planning is just that- planning for taxes. That is, looking at your income, gains, losses, deductions, credits, etc., adding them all up and projecting (or computing) what your tax will be for the year. The planning comes in when you give us your income, deduction, etc. information and we do your tax projection before the end of the year so that we can come up with ideas to reduce your taxes.

The best way to do tax planning is to have us prepare a tax projection and create a tax reduction strategy for you before the end of the year so you can implement the plan before it's too late.

Individuals are cash basis calendar year taxpayers for the most part. That means you report only transactions that occurred between January 1 and December 31 each year and that the transactions include only cash received and cash paid within that time period. Note: the term "cash" as used here includes checks, items charged on a credit card, electronic debits, on-line bill paying, money orders, cashier's checks and any other form of payment or receipt of value.

That's why it's so important to compute your taxes and create a tax reduction strategy before the end of the year because once you pass December 31 there's not much you can do to change the transactions you will be reporting on your tax return for that year. And there are almost always some things you can do to reduce your taxes. You may decide not to do them- but at least you'll have the choice.

Example- Sale of a Property:

A good example of tax planning that can save a lot of money is when you sell a piece of real property and have a capital gain on it. Say you have a property for which you paid \$100,000. Usually that's your tax basis, your cost. If you sell it after 3 years for \$200,000, you'll have a gain of \$100,000 on the sale. (This is keeping it simple, not considering sales commissions, closing costs, depreciation or other things that may affect the gain on sale.)

Without tax planning you will go trick or treating on October 31st, eat turkey on November 27th and open your presents on December 25th, then celebrate the New Year on January 1st. AND THEN On April 15th you'll file your tax returns and pay at least 15 % federal long term capital gains tax on the gain from the sale, i.e. \$15,000.

But if you had just let us do a projection for you before the end of the year you would have seen that you would also have, say for example, an additional 8 % California tax on the gain of \$8,000, bringing your entire tax bill to \$23,000 just on the gain. We would have advised you to pay the \$8,000 California tax before December 31 so you could deduct it on your federal tax return for the year of the sale. Then you would get a tax benefit from the deduction based on your regular tax bracket. If you were in a 28 % tax bracket your tax savings would have been $\$8,000 \times 28\% = \$2,240$. Otherwise you will deduct the state tax that's paid in the following year but you may be in a lower tax bracket because you don't have gain from the sale of a property and only have your regular income. Then your tax benefit from the deduction will be smaller.

This is a very basic example of how tax planning works. We apply this approach to many different types of transactions and situations to help our clients pay the least amount of taxes possible. We don't just look at this year but strategize with our clients to develop a plan that encompasses several years and includes all aspects of their lives that may affect taxes, such as:

- bunching dental or medical treatment into one year to increase their deduction
- selling stock at a loss before year end to offset other capital gains
- paying expenses in the year that has the highest income
- taking extra distributions from 401k's or IRA's when other income is lower
- doing Roth IRA conversions when income is low

Just to name a few. Contact us for more information about how to reduce your taxes and get the biggest benefit from your deductions and losses.