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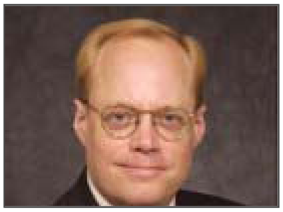

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3 Year-End Steps That Pay Off Big

Every tax year stands on its own, and by the time you start figuring your taxes in April, it's too late to do much about it. That's why a quick check-up before year end is a good idea. There's no shortage of tax advice about moves you should make. In fact, it's difficult to wade through it all. That doesn't mean you should be paralyzed.

Consider your own circumstances. Focus on what's most important to you and what has the biggest bottom-line effect. If you need ideas, here are three:

1. Pay Your State Taxes. One prime deduction–and for many taxpayers, one of the most important–is state income taxes. If you own a home, property taxes can also be big. Figure out approximately how much you will owe your state in April 2014 for 2013. If you pay the taxes in December 2013 you can deduct them on your 2013 federal tax return. If you wait until April to pay, you can't deduct them until you file your 2014 federal return in 2015.

Nevertheless, don't write a big state tax check on December 31 if it creates an AMT problem. Figure your AMT by running the numbers. Many ***regular*** tax breaks are disallowed for AMT purposes. Examples include property taxes, state income taxes (or state sales tax if you elect), miscellaneous itemized deductions, and personal exemptions. If you elect to claim a sales tax deduction instead of a state income tax deduction—the election is due to expire in 2013—consider accelerating big purchases into 2013 in order to assure a deduction for sales taxes.

While you're figuring state taxes, it can be tempting to seek greener pastures. This isn't a year-end move or something to take lightly. However, if you think you can save a bundle, consider moving to a low-tax or no-tax state. Of course, consider that state income taxes are deductible against federal income tax. That means state tax savings can cost you more federal taxes. See Moving To Beat High State Taxes? Watch Out.

2. Get Paid This Year. It usually pays to defer income and accelerate deductions. It sounds counter-intuitive, but this year it may pay to ***accelerate*** income into 2013. Depending on your numbers, if you anticipate paying AMT, a little extra income in 2013 might take you back ***out*** of AMT. It might pay to grab income in 2013 rather than getting paid in 2014.

Conversely, if you'll be better off getting paid in 2014, consider asking your employer to defer a bonus that may be coming your way. Better run those numbers. Unless you're self-employed, you may not be in control of your own income. Still, you may have ***some*** degree of control. In all such endeavors, be careful of constructive receipt rules. See When 'Pay Me Later' Means Taxes Now.

3. Optimize Deductions. Tax return time in April or October can be especially frightening if you haven't planned ahead. Before year end, tally your income and deductions and see how it looks. Often, that act alone will inform you what to do.

You really can't handicap this without calculations. Try to claim deductions when you get the best benefit. Usually that's earlier, but not always. Consider using a credit card to prepay expenses if they'll generate deductions this year. Remember, credit card payments are like writing a check for tax purposes, even though you might not receive—or pay—the credit card bill until next year.

In some cases deductions create problems. It is almost impossible to assess your exposure to AMT without software or filling out a tax return by hand. Experiment with tax return preparation software or turn to a good accountant who can run numbers for you. And like every year-end, be careful out there!

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.