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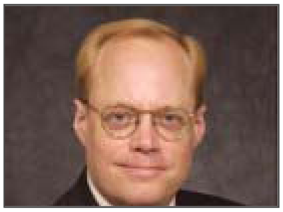

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How To Maximize Your 2013 Deductions

(Photo credit: StockMonkeys.com)

If you want to cut your tax bill next April 15th, start thinking about deductions now.

Like it or not, get ready to crunch some numbers. It's the only tax-wise way to figure what to buy, receive, pay, settle or deduct before the end of the year. More than in most years, a tax-wise end of 2013 is hard to handicap for taxpayers. Even if the tax system were static, the changes between 2013 and 2014 rates and rules—let alone the economy—make it rough.

Add to that the expiring tax provisions and rate changes and you'll find that calculators or software are all but essential. A crystal ball wouldn't hurt either. Some provisions set to expire December 31 might be extended by Congress after all—right up to New Years. Taxpayers who are nimble and watching tax news are more likely to benefit.

If you are a high-income-earner, add to the usual problems two new ones. You need to take into account the 3.8% tax surtax on unearned income and the additional 0.9% Medicare tax on wages in excess of $200,000 ($250,000 for joint filers and $125,000 for couples filing separately). See [The Definitive Questions And Answers On The New Net Investment Income Tax](#).

Here are some ideas to consider on your facts and to add to the usual push-me-pull-you of whether to take action in 2013 or to push it—whatever it is—into 2014.

Consider triggering losses on stock investments. Investment pros say it's hard to bite the bullet and take a loss, but it can make sense. Grab the loss especially if you can offset it against gains and save taxes. What if you still like the investment and think it will recover? Consider selling your original holding, then buying back the same securities at least 31 days later. This isn't for beginners so get some advice.

This is the most obvious year-end strategy, but year in and year out it can help. If you can—and you almost certainly can to some extent—defer income until 2014 and accelerate deductions into 2013. This isn't just about timing—it's almost always better to claim deductions earlier and receive income later. This is about phase-outs, monitoring your adjusted gross income (AGI) and watching alternative minimum tax (AMT).

Likely candidates for you may include child tax credits, higher education tax credits, the above-the-line deduction for higher education expenses, and deductions for student loan interest.

Postponing income is usually desirable, but especially if you anticipate being in a lower tax bracket next year. But for some, think contra. It may pay to ***accelerate*** income into 2013, especially if you have already paid large amounts in 2013 that will trigger then AMT and a little extra income in 2013 might take you back ***out*** of AMT. Better run those numbers.

Ways you might manipulate 2013 v. 2014 income? What about asking your employer to defer a bonus that may be coming your way until 2014? If you are owed a consulting fee, what about getting it next year? Be careful of constructive receipt rules—see When 'Pay Me Later' Means Taxes Now—but it's often possible to do more of this than you might think.

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.

Will you owe state income taxes when you file your 2013 return in 2014? If so, consider asking your employer to increase your state income tax withholding.

Or, just make an estimated tax payment to your state before year-end. But don't write a big check to your state on December 31 if it creates an AMT problem.

Estimate your year-end moves on AMT. Run the numbers since many ***regular*** tax breaks are disallowed for AMT, including: state property taxes, state income taxes (or state sales tax if you elect), miscellaneous itemized deductions, and personal exemptions. For more on AMT, see When Planning Never Forget The Alternative Minimum Tax. Some other deductions (including some medical expenses) are calculated in a more restrictive way for AMT purposes. As a result, in some cases, deductions should not be accelerated.

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.

More math? Consider a bunching strategy for 2013 v. 2014. Don't just consider one type of deduction (say state income taxes or property taxes). Consider groups of deductions, like miscellaneous itemized deductions, medical expenses and other itemized deductions.

Own your home? Consider making energy saving improvements before New Years. Things like extra insulation or energy saving windows, an energy efficient heater or air conditioner can qualify.

The $4,000 above-the-line deduction for qualified higher education expenses is due to expire December 31. Thus, consider prepaying eligible expenses if it increases your deduction.

Fighting an old tax bill? Consider giving up and paying or settling the bill in 2013 so you can deduct them. Not ready to call it quits? Also consider whether you can pay the bill but still keep fighting. Depending on the taxes and situation, that can make sense.

Do you have an outstanding insurance or damage claim? Consider settling it in 2013 in order to maximize your casualty loss deduction this year.

Here's a longer term idea. Consider purchasing qualified small business stock—often abbreviated as QSBS—before the end of this year. There is no tax on gain from its later sale if it is: (1) purchased after September 27, 2010 and before January 1, 2014; and (2) held for more than five years. What's more, such sales won’t cause AMT preference problems either. For more about QSBS, see Tax-Free In 2011: Qualified Small Business Stock and About Face! California Passes Retroactive Small Business Stock Tax Break.

None of this is fun, but crunch the numbers or have your return preparer do it. This year end—and next April—you won’t be sorry.

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.