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ACCOUNTING

End-of-year tax savings

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Taxes may be the last thing on your mind as the holidays roll around, but they shouldn't be. There are unique tax-saving opportunities only available before year's end. For just a moment, set down your pumpkin spice latte and roll up your sleeves. The following tips could truly make this the most wonderful time of the year when it comes to tax savings.

Consider selling stock

If you lost money on certain stocks this year, selling off corresponding long- or short-term shares that performed well could offset your capital losses. Conversely, if you experienced gains, you might want to consider selling losses to offset those gains. While you can't replace stock sold at a loss within 30 days ("wash sale" rule), you can replace it with similar investments. For example, if you sold a hospital stock, you could replace it with a hospital exchange-traded fund, a mutual fund specializing in hospital investment, or a different hospital company. However, that rule only applies to losses, no such rule exists for repurchasing stock gains

Give money to loved ones

Individuals can give up to $15,000 annually to other individuals tax-free (married couples can gift $30,000). These limits include property (such as land, a car, or a collectible, for example) valued at an indisputable present worth or fair market value, and must be a "present interest" gift. For example, a gift of a life insurance policy could be a gift of a "future interest" as it is contingent on a future event. While giving to other individuals, in general, will not directly lower your taxes immediately, doing so annually over time is a good way to avoid future gift taxes or estate taxes on a larger lump sum. Future income taxes could also be reduced if the "gift" will appreciate over time and the recipient is in a lower tax bracket. Also, keep in mind that tuition and medical expenses for close relatives are not considered gifts and might be deducted.

Give money to charity

Giving money or other assets to charity is a great way to reduce your tax bill. Charitable giving is an especially great option if you're 70 ½ or older because you can donate up to $100,000 from your IRA as part of your Required Minimum Distribution. You just need to follow certain IRS guidelines for your contributions to be considered tax deductible.

First, you must be giving to a qualified organization that is a 501(c)(3) in good standing. You cannot deduct contributions made to individuals, political organizations and candidates. And if you receive a benefit in return such as merchandise, tickets to a ball game or other goods and services, then you can deduct only the amount that exceeds the fair market value of the benefit received.

Unsure of which charity you wish to support? That's OK. You can create what's called a Donor Advised Fund. Contributions made to the fund are immediately deductible, even if they aren't given to a charity until a future year.

Make deductible business purchases

This part requires careful planning with a tax advisor since new tax code opportunities haven't yet been defined by IRS guidance. Changes like the newly increased Section 179 expensing and the ability to take 100% bonus depreciation for purchasing used qualifying purchases could mean that businesses can write off these purchases even faster. Companies considering capital expenditures in the first quarter of 2020 should consider acquiring these assets before the end of the year. The new 20% small business deduction and a doubling of the standard deduction limit mean small business owners of pass-through entities could save immensely on their tax bill, too.

Keep these changes in mind as you consider business purchases both large and small through the end of the year, from splurging on a company jet to stocking the break room with pens. And if you're in the construction industry and have long-term contracts (contracts that will be completed in the following year), consider the new tax law which now allows businesses with less than $25 million of average gross receipts for the last three years to automatically elect switching to the completed contract method of accounting for tax purposes.

Consider deferring income

Business owners who want to reduce taxable income and use the cash method of accounting can defer being paid until next year. You can consider delaying the invoice or payment in order to push receipt of the money into January instead. There are other steps you can take to reduce your taxable income like funding a retirement account, recharacterizing IRA contributions, and, if applicable, carrying forward business losses.

The bottom line

It'll be a tax season filled with changes and uncertainty, so the earlier you plan, the better. Don't wait until spring to find out how the new rules affect this year's tax bill. Many of these opportunities are only available before the New Year arrives.

Steven Bankler has more than 42 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.