

# tax planning

## • somethings to consider...

There aren't very many people who actually like to spend time thinking about taxes and the ways in which to reduce them. But you've heard it said before, no pain no gain; and it couldn't be more applicable than when it comes to your taxes.

As the tax year draws to a close, sound planning (the Pain) can lead to significant savings in your overall tax bill (the Gain). Actually it's not that bad, but you get the point.

Generally speaking, one of the planning tools in minimizing taxes is to accelerate deductions and defer income. This means that you make payments on deductible items such as your mortgage, charitable contributions, and state taxes near the end of December rather than in January. Conversely, it would mean deferring the receipt of

income into January rather than in December. In most cases, this is a good planning strategy.

However, there are instances where exactly the reverse is true. For example, take the case where you start a new job or a new business and in the first year, your income is low enough to keep you in the 15 percent marginal tax bracket. But, you are confident that in the second year after starting your business, your income is going to be high enough to put

you in the 25 percent or higher tax bracket. In this case, by claiming more income before the close of the tax year, you end up having it taxed at 15 percent versus the 25 percent or higher bracket. This holds true for deductions, as well. By waiting to claim a deduction into January, you effectively can gain an additional 10 percent savings on that same deduction.

These days, another area for planning and often

one of the most overlooked, is the Alternative Minimum Tax (AMT). For most of the professionals working at Intel here in Folsom, AMT is nothing new. But for many other taxpayers who are becoming subject to AMT, AMT remains a mystery. This tax brings an additional set of complex rules that are puzzling to most professionals who deal with it on a regular

basis, not to mention those who try to deal with it once a year! The simplest way to explain AMT is that this is the IRS's way of attempting to ensure that certain taxpayers do not derive too much of an advantage from certain types of income or deductions that are reported on their returns.

Specifically, AMT is a separate set of tax rules that looks at your income and deductions reported for regular income tax, and then makes certain adjust-



ments that erodes or eliminates the advantages allowed for regular tax. For example, when computing your regular tax liability, you are allowed to claim the amount of state income taxes and real property taxes paid as itemized deductions. However, when computing AMT, you have to give those deductions back. Another item that is an adjustment for AMT, referring back to the professionals at Intel, is Incentive Stock Options (ISOs). Without going too in-depth, this particular adjustment requires that you include income, when calculating your AMT, at the time you exercise the stock options but before you have actually sold them and received any proceeds!

As you can imagine, there are numerous other items that require adjustment when computing AMT. Once those adjustments are all made, you then compare your regular tax versus your AMT and you pay whichever is HIGHER.

The point of this article is to bring to light the idea that sound tax planning along with in-depth knowledge of the various tax laws can be of great benefit in minimizing your overall tax bill. It is critical to consider the impact of items such as these before the end of the year in order to maximize your tax benefits. There are very few items, such as an IRA, that can be done after December 31 to assist in reducing your tax bill.

There is no one tax strategy that fits all. Tax planning varies depending on facts and circumstances of your particular situation. The bottom line is that you can not make a good decision if you do not know where you stand. We suggest that you meet with a tax professional before year end in order to adequately plan your strategy and ensure you maximize your overall tax savings.

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