

Tax Planning: A Year-Round Activity (but it's not too late to start now)

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Most of us have an aversion to thinking about taxes. Even if we see value in government and the services it provides there is a certain amount of resentment to the idea that we are required to hand over a rather substantial chunk of our earnings to someone else. Unfortunately, it's important to think about taxes if we are to minimize the impact of something we dislike even more: paying them.

The first thing you have to do is to be willing to plan ahead. Most of us file tax returns on April 15th, but the tax year actually ends with the calendar year. In my experience, the window for effective tax planning usually closes around December 1st, although some tax-saving transactions can be put into motion up until around December 23rd and the IRS gives you until the date you actually file your return to fund certain tax-favored investments.

The further ahead you plan, the more maneuvering room you have. At AKM, we always recommend that clients examine at least two years at a time. Additionally, it nearly always pays to work with a professional advisor – a CPA or financial planner – who understands the tax implications of a wide range of financial choices and knows the tax law thoroughly. Finally, remember that tax planning is not an event; it is an ongoing process.

Here are a number of strategies I recommend to my clients. None is a “quick fix” for tax savings; consider each within the context of your total financial picture.

- ❖ **Examine your portfolio carefully for gains.** If a particular security has performed well and you're thinking of cashing out, be sure to review all of the implications. Capital gains tax of 15% will apply to the full difference between the purchase and sales prices of securities you have held for a year or longer, but you can minimize this by gifting some of the appreciated security to a qualified charity. You'll get credit for the full current market value of your gift and will owe no capital gains on that portion.
- ❖ **Think strategically about when to take losses.** If you've accumulated some net long-term capital gain, it is usually a good idea to offset that gain with losses. Capital losses can exceed gains by \$3,000, which you can then use to offset ordinary income.
- ❖ **Consider donating appreciated securities to your favorite charity.** You both win. The charity will receive a donation that is the same size or larger than the one you first contemplated. You will relieve yourself of any capital



