

Early tax planning

Why it works to your advantage *By Jennifer A. Gajda*

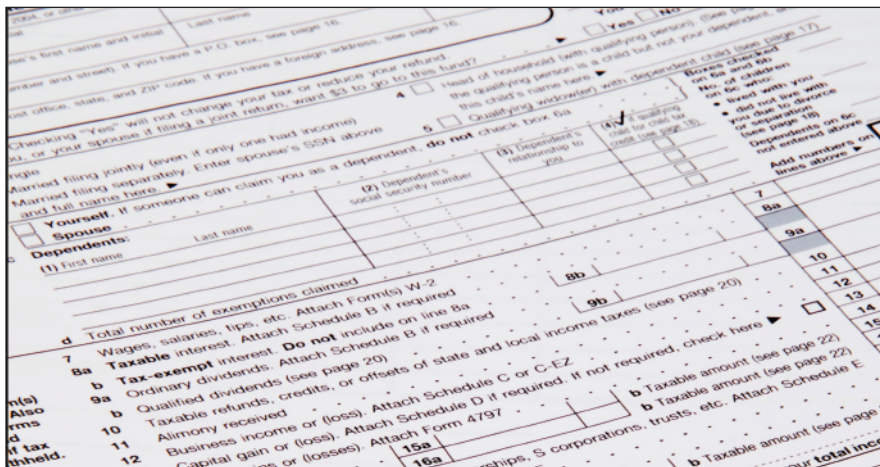
While for many it may seem that they just finished filing their 2007 tax returns, the 2008 tax year is quickly coming to an end. However, there is still time to take advantage of tax planning that can minimize your liability when you file next year.

Capital losses can be your gain

Although the markets are struggling now, you may have capital gains from earlier in the year. You can offset those gains by selling off some of your recent capital losses. Current law allows a taxpayer to take a net loss (capital gains minus capital losses) of \$3,000 for the year. You can carry forward losses greater than \$3,000 to future years. To further the benefit, some investment advisers suggest that clients sell off their losses and then use the proceeds to purchase a similar type of investment. This way, they can take advantage of the losses and their portfolio remains similar. However, it is important to understand the wash-sale rules; they do not allow you to buy substantially identical replacements within 30 days. There are ways to reach the same effect without breaking this rule, though. For instance, if a taxpayer invests in a health care mutual fund offered through a brokerage company, he or she can sell off that one and buy a similar fund offered by a different brokerage company. Your investment adviser should be familiar with the wash-sales rules and be sure that you act within accordance.

Benefits of maximizing your retirement plan

It is not too late to defer income by contributing to your retirement account. If you are enrolled in a 401(k) or some other retirement plan, you can maximize your contribution to defer taxation of income. Although it may seem crazy to put additional money into your plan, given the difficult economic times, you may reap the benefits of buying during a downturn later on. Consider where



you fall in your tax bracket. If you are on the fringe, the additional deferral may help you stay in the lower bracket.

With age comes advantages

The Emergency Economic Stabilization Act of 2008 allows those who are 70 1/2 and older to make charitable contributions directly from their IRAs. The portion of IRA distributions that are contributed directly to qualified charities would not be included in income. In essence, this moves the deduction from Schedule A to page one of the return. This is an effective way to reduce adjusted gross income. Keeping in mind that adjusted gross income is often the amount that is considered for phase outs, this can have even more benefits. Taxpayers who are past the age of 70 1/2 should also check to see if they've made the required minimum distribution out of their IRA account in order to avoid penalties. Your accountant or investment adviser can help with this calculation.

Timing is everything

Timing certain expenses correctly can also result in additional savings. Cash basis taxpayers can deduct any state and local tax payments made in 2008. It may be advantageous to pay your state and local estimated payments and your real estate taxes by Dec. 31. However, if you expect to be in alternative minimum tax, this strategy will not

work. The state and local tax deduction is not allowed when computing alternative minimum tax. Taxpayers who have not been able to itemize their deductions in the past may want to consider bundling their expenses in one year. Here's an example of how to make this work — pay real estate taxes in January for the past year and then in December for the current year, and then alternate between itemized years and standard deduction years.

No good deed goes unnoticed

Remember you have until Dec. 31 to make charitable contributions for 2008 deductions. If you are planning to donate stock held greater than 1 year to a charity, keep in mind that your deduction is at fair market value. With the market being down, this may not be the best time to make these types of donations.

Don't leave it to the IRS

Finally, don't forget about estate planning. The annual exclusion allows taxpayers to gift \$12,000 per beneficiary tax free. Couples who elect to split gifts can give \$24,000.

Tax planning should be continuous throughout the year, but it is never too late to start. Make "early tax planning" a New Year's resolution you keep.



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