

Individual Tax Planning

Definition:

Individual tax planning is the process undertaken to project tax liabilities. It may include examining various circumstances, and recommending the timing for paying deductible items and recognizing income.

Benefits:

The intangible benefit to tax planning is providing our clients with a reasonable estimate of their annual tax liabilities including whether they can expect to pay taxes when their returns are filed or to expect refunds. The tangible benefits include saving taxes, either by deferring payments, reducing penalties and interest charges or permanent reductions. The savings may include the reduction or elimination of federal alternative minimum tax, paid in addition to an individual's regular federal tax liability.

Process:

- Review prior year income tax returns and files to assess items that recur or carryover to the current year
- Download prior year income tax returns into our tax planning program.
- Adjust items that may have changed from the prior year's data, such as estimated tax payments, and capital transactions.
- Gather information that affect tax liabilities such as projected income from pass-through activities, up-to-date stock gains or losses, and wage and tax withholding information.
- Calculate federal and state tax liabilities, and recommend amounts and timing of federal and state tax payments while considering avoiding or reducing underpayment penalties, and effects of payments on federal alternative minimum tax.
- Issue report to client along with correspondence and tax planner

Case Example:

A client was considering a large non-cash charitable contribution. He wanted to maximize the after-tax savings of the contribution. We updated his tax projections during the year taking into account recent changes to income and deductions. Near the end of the year, we obtained all of his stock sales, determined his bonus from his company, along with appropriate withholdings, and projected his income over the next five years. The forward-looking projections were prepared to determine how much of the charitable contribution would be absorbed and the effective tax savings enjoyed. In conjunction with the five-year projections we analyzed the proper time for taking discretionary distributions from retirement plans and optimal amounts of capital gain income. Our recommendation was to make the contribution before the end of the year, coordinate the receipt of an appraisal of the property and complete forms necessary to attach to the return. By timing the above transactions as recommended, the client saved almost \$65,000 in federal taxes.

Each year we update the five-year projections to determine when the carryover contribution will be used and the tax benefit of the deduction.