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Year-end planning strategies for new tax issues

By SANDI WEAVER

We're facing several new taxes this year. Here's a list of some, and possible ways to mitigate the damage.

Additional layers of taxes are now applicable. If your modified adjusted gross income (AGI) is over $250,000 joint/ $200,000 single, you'll pay an extra 3.8% Medicare Surtax on the lesser of investment income, or the income over the $250,000/$200,000.

• First, calculate what this will really cost you; it may not be material. But if so, then consider the tax-reducing suggestions below.

If your AGI (adjusted gross income) is over $300,000 joint/$250,000 single (Check form 1040, page 1, line 37 to see what your AGI was the prior year.):

• Your itemized deductions will be capped. You can lose up to 20% of your deductions.

• Your personal exemption will be cut back, subject to phaseout. A personal exemption reduces your income by $3,900.

If your taxable income is over $450,000 joint/$400,000 single (Check form 1040, page 2, line 43 to see what it was the prior year.):

• You will pay tax at 39.6% rather than 35%, on income over those levels.

• You pay capital gains tax at 20% rather than 15%.

• You pay a 20% tax rate on dividends rather than 15%.

The 35% tax bracket is now $398,350 - $450,000 joint/$398,350 - $400,000 single. Lower brackets remain as scheduled.

Here are some ways which might help you lower your income subject to tax.

Use IRA's, Roth's, and pensions (401ks, SEPs) to the maximum possible. Although some CPAs disagree, we have always recommended making non-deductible contributions to IRAs when your income is high so that future income from those assets are sheltered in a tax-deferred account.

Can you get the business to replace some wages with other forms of income? Can it provide a nontaxable fringe benefit such as medical/disability insurance, onsite meals, or, a better company match or profit-sharing in its pension?

If you own a business, consider shifting investments (and the income) to your business entity.

Here's one of the few instances where making charitable contributions directly from an IRA, to satisfy taking your Minimum Required Distribution, makes sense; it lowers AGI. You can make a Qualified Charitable Distribution from your IRA until the end of this year.

Gift investments to lower-income family members to shift capital gains over to their tax return. Their capital gains tax rate is often 0%. You might give your child an appreciated investment and have them sell it in their account. We have several clients whose children have paid for their own weddings, paid their own tuition, and bought their own cars using this technique.

Save for your children's college inside a 529 or Education Savings account. That generates investment income inside these accounts, keeping it off your tax return.

Tuck a part of your paycheck into your flexible spending account, if your employer offers one, and it bypasses your adjusted gross income figure on your tax return.

Or, contribute to your own health savings account if you have a high-deductible medical policy. You can contribute $3,250 for an individual, or $6,500 for a family into a health savings account. If you're over 55, you can contribute an extra $1,000 catchup amount. Those contributions keep that money out of your adjusted gross income figure. If your employer contributes some but not the maximum, you can makeup the difference and take a deduction.

For those making taxable gifts, the annual exclusion is $14,000 for 2013. Gifting assets which produce high levels of income can lower your income level in future years.

If your taxes are likely to increase for 2013, start using strategies now before year-end to remain under key levels. Strategize to avoid the phase-out, the Medicare Surtax, and more of these new taxes.

Sandi Weaver is a CPA, CFP at Financial Security Advisors in Prairie Village, and a member of the Financial Planning Association