YEAR END TAX PLANNING STRATEGIES

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As the New Year fast approaches you should take a look at your tax situation and implement strategies that will minimize your 2005 taxes and reduce your estate. To impact 2005, you need to implement your planning strategies before year end. The following is a brief overview of many year-end tax saving strategies.

Planning for Your Investments

For 2005, long-term capital gains and qualifying dividend income are subject to a tax rate of only 15% for taxpayers in a regular tax bracket of 25% or higher and 5% for taxpayers in the lower regular tax brackets. Given tax rates as high as 35% for other types of income, this is a quite a break. The favorable tax rates might make dividend paying stocks more attractive than they were in the past when dividends were taxed at ordinary income tax rates. A key requirement for the lower rate on dividends is that the proper holding period is met.

Manipulate your Income

The most basic form of year-end planning involves pushing tax bills into the future by accelerating deductions and deferring income. One example would be to postpone an IRA withdrawal, another would be to prepay your January1 home mortgage interest in December.

Make the Most of Year-End Selling

If you have a few loser stocks that you would not mind unloading, now is the time. If you have them, you can sell enough dogs to wipe out all your realized capital gains for the year, plus another $3,000 ($1,500 for married filing separately) in regular income. Be careful to avoid a wash sale --- buying the same security within 30 days before or after you dump shares. Tax rules disallow the loss.

If you have realized losses over $3,000, consider selling enough winners to get back to that magic number. Taking the gains will add zero to your tax bill.

Retirement Plan Distributions

If you are age 70 ½ or older, you are normally subject to the minimum distribution rules with regards to your retirement accounts. Under these rules, you must receive at least a certain amount each year from your retirement accounts. You can always take out more than your required amount, but anything less is subject to a 50% penalty on the shortfall amount. Thus, if you have not taken your required distribution for 2005, do so before year-end to avoid a hefty penalty.

Charitable Giving

Donations charged to a credit card are deductible in the year charged, not when payment is made on the card. Thus, charging donations to your credit card before year-end enables you to increase your 2005 charitable donations deduction even if you are temporarily short on cash or simply want to defer payment until next year. Note, however, that any interest paid with respect to the charge is not deductible.

Year End Gifting

If your estate exceeds the Federal Estate exemption of $1,500,000 or the New Jersey Estate exemption of $675,000 then you may want to make gifts prior to year end. The Internal Revenue Code provides for an individual to gift up to $11,000 per year per person. This amount is increasing to $12,000 for the 2006 tax year. Under 2005 tax laws a married couple can give a combined gift of $22,000 per year per person. Unless an exception exists, amounts gifted in excess of the above-mentioned amounts will be reduced from your estate when you die. Gifts can be made to an unlimited amount of individuals. Furthermore, direct payments to a health care provider for the medical care of another person and direct payments of tuition to an educational institution for another person are not transfers for gift tax purposes. Hence, by way of example, a grandparent may pay for all of the tuition for a child, a grandchild, or any other individual from nursery school to post graduate education free of gift tax. This is in addition to any annual exclusion gifts that such grandparent may make to such persons.

Modify Estate Documents

The Federal Estate tax exemption is increasing from $1,500,000 to $2,000,000 starting in January 2006. Therefore, you may want to review your estate planning documents to see if any revisions are necessary. If you have established a “Bypass Trusts” in your Will or Revocable Trust you may want to change your documents to a “Disclaimer Trust”. A “Disclaimer Trust” enables a surviving spouse to have the option as to whether he/she wants to receive everything outright from the first spouse or disclaim part of the proceeds and place them into a Trust. The goal for the surviving spouse would be to make sure that his or her estate is below the Federal Estate tax exemption and the New Jersey Estate exemption amount.

Summary

Taking the time now to review your 2005 tax situation gives you a chance to take advantage of many year-end tax saving opportunities. If you would like to discuss the strategies mentioned here or other ideas for reducing your 2005 tax liability, please do not hesitate to call your tax accountant or estate planning attorney.