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Tax Planning Tips to Consider Now for the End of the Year

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• **Annual exclusion gifts.** Each individual can make a cumulative gift of $14,000 per donee during 2013 without using any portion of his or her exemption from the federal gift and estate tax ($5.25 million per person this year). Such gifts can be made outright or in special qualifying trust structures. For those still considering such gifts, it may be worthwhile to plan for 2013 and 2014 at the same time. Gifts for 2014 can be made effective as of Jan. 1.

• **Accelerate deductions.** Prepay deductible expenses due in January (including state and local income tax estimated payments that may not be due until January).

• **Loss harvesting.** Harvest tax deductible losses to offset taxable gains for 2013. However, be mindful of the 30-day wash sale rule of Internal Revenue Code Section 1091, which could disqualify a deduction of the capital loss if the same, or substantially identical, security is purchased within 30 days after selling at a loss.

• **Required minimum distributions.** For those who have reached their required beginning date or who hold inherited IRA accounts, be sure to take your required minimum distribution for 2013 from your traditional IRA or qualified plan account by Dec. 31. Note that those individuals who are 70-and-a-half or older may elect to distribute up to $100,000 from an IRA (other than an inherited IRA) directly to a qualifying charity (a "charitable rollover") in partial or full satisfaction of their required minimum distribution for 2013. Any qualified charitable rollover amount won't be reportable for federal income tax purposes.

• **Qualified retirement plan establishment.** Business owners who are considering funding a new retirement plan have the opportunity to establish a qualified retirement plan by the end of the year but defer the decision about the funding amount (and the actual contribution) until later during 2014 (contributions can generally be delayed until Oct. 15). Tax deductible contributions for 2013 can be as much as $56,500 per participant.

• **Roth IRA conversion.** Convert a traditional IRA to a Roth IRA to take advantage of lower brackets or absorb excess deductions. All or any portion of the converted amount can be recharacterized to a traditional IRA on or before Oct. 15, 2014.

• **Basis step-up planning.** For individuals who have funded "grantor" trusts for their families, year-end is a good time to consider swapping back low-basis assets (e.g., appreciated stock) for high-basis assets (e.g., cash) to help make tax reporting after the swap cleaner (rather than switch tax identification numbers in the middle of a tax year). It's better to own the lower-basis assets at death because of the opportunity for a basis step-up to fair market value under Internal Revenue Code Section 1014.

• **Charitable giving.** If you are in a high-income year, consider prepaying future charitable contributions to generate current income tax deductions. This can be accomplished simply by increasing the contributions to your favorite charities, in general, or you can defer the receipt by the charitable organizations you wish to benefit (or even defer the decision as to which ones to benefit) by contributing to a donor-advised fund, a private foundation, charitable lead trust or charitable remainder trust or purchasing a charitable gift annuity. Both the charitable gift annuity and charitable remainder trust options allow you to retain an income stream for life and defer the transfer of the remaining funds to the charity until after your death.

• **IRAs and HSAs.** While you technically have until April 15, 2014, to fund your individual retirement account and health savings account for 2013, it's always a good idea to start planning for such funding at year-end. Consider helping your children (to the extent that they have earned income) to fund tax-favored Roth IRAs if at all possible. The maximum contributions for IRAs in 2013 is $6,500 ($5,500 for those younger than 50). The maximum family contribution for an HSA in 2013 is $7,450 (or $6,450 for individuals younger than 55).

• **Trust income tax planning.** While a trustee will generally have until 65 days after the end of the tax year to shift trust taxable income to a beneficiary, it's worthwhile to monitor the issue at year-end to get a jump start on evaluating the issue. This is becoming a more consequential issue with the new Medicare tax imposed at 3.8 percent and the extra 5 percent tax that is imposed on dividends and capital gains at the higher brackets (which are reached pretty quickly for a trust).

• **Estate plan review.** And, last but not least, although it's not necessarily year-end sensitive, the end of the year is a good time to review your estate plan to see if changes might be in order (whether because of changes in the tax law, your wealth, your chosen fiduciaries, or objects of your bounty). If you don't review it at year-end, you might never review it before it's too late, since you may not have any advance notice of the actual deadline.

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