THE BENEFITS OF YEAR-END TAX PLANNING

Year-end tax planning is the process of evaluating your current business income and estimating what it will be at the end of the year to determine what strategies are available to help reduce your current year taxable income. During the planning process, you will also be able to identify which business transactions will be beneficial in reducing your current year tax liability.

Important items to consider in your year-end tax planning process include:

**Purchase of Fixed Assets**
Most businesses typically own fixed assets, such as equipment, that need to be replaced each year. If your business has the cash on hand to replace old equipment, you may want to consider making that purchase before year-end. Current levels of Section 179 or bonus depreciation allow you to take all or a significant portion of that purchase as a deduction in the current year, thus reducing the current year’s taxable income.

**Payroll Deductions**
If your business offers a year-end bonus for employees, you’ll want to evaluate the amount of the bonuses in relation to what the current taxable income is for your business. You’ll want to ensure the payroll taxes for the bonuses, in addition to your regular payroll, are paid by December 31st, making them both deductible in the current year.

**Supplies**
The purchase of regularly used, non-perishable operating supplies can be accelerated into the current year if cash flow allows for that. You’ll only want to accelerate enough purchases to help reduce your taxable income for the year, and not tie up cash into inventory that will sit too long without being used.

**Personal Planning**
Once your business planning is finalized, the following aspects of personal planning should be considered to help reduce taxable income for the year:

- Should property taxes and state income taxes be paid before December 31st or in January, determining if the deduction is taken in the current year or the next?
- Making a charitable contribution to your favorite charity is an excellent way to reduce taxable income if made by the end of the year.
- If you have sold off stocks during the year and have significant capital gains, should you look for loss positions that could be sold off before year-end in order to off-set those gains?
- Are you considering a property sale that could be structured as an installment sale, essentially spreading the gain over multiple years?

These items, along with other planning strategies, allow you to have more control over the amount you will owe, as well as help you know what’s coming on tax day.