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BEATING THE YEAR END TAX-PLANNING RUSH

By: Brian Puckett, JD, CPA/PFS
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Year-end is fast approaching. Now is the time take action to reduce your 2004 tax bill. Here are seven strategies to consider:

1. Open a new retirement plan. Small businesses should consider a solo 401(k) or a Safe Harbor 401(k). New rules make small 401(k)s more cost effective and less cumbersome than ever. Participants can now shelter up to $41,000 for 2004. This far exceeds limits on alternatives such as SIMPLE or SEP plans. And, if you're looking for even greater tax savings, Defined Benefit plans allow s*ignificantly larger* pretax contributions than any of these plans.

2. Begin required IRA distributions. If you turned 70½ this year, you must start minimum IRA distributions by December 31st. Technically, you may delay your initial distribution until April 1 of next year, but that would result in two required distributions for 2005 (your 2004 distribution and your 2005 distribution would both be taxed on your 2005 return). That could push you into a higher tax bracket and also subject more of your Social Security income to taxation.

> In this world nothing is certain but death and taxes.
> **Benjamin Franklin (1789)**

3. Pay attention to mutual fund distributions. Don't get caught having to pay tax on capital gains declared by a fund that lost money. If you plan to replace the fund anyway, sell it before the "ex-dividend" date (usually November/December). Moreover, don't buy into a fund just prior to its "ex-dividend" date. You could wind up paying tax on gains you never earned.

4. Review investment gains/losses. It's time to consider selling your losers to offset your winners. Also, consider selling winners and sheltering their gains with losses previously realized (and perhaps re-purchasing those winners later). If you don't have investment profits to offset, you can use investment losses to shelter $3,000 of ordinary income and carry surplus losses into the future.

5. Bunch deductions. A time-honored tax strategy is to bunch deductions into a single tax year. For example, you might prepay next year's property taxes or next January's mortgage payment. Bunching elective medical expenses also might push you over the 7.5% deductibility threshold.

6. Consider charitable deductions. Consider increasing charitable contributions in higher income years and/or delaying your donation of investments until they regain value — so you'll get a larger tax deduction. (Better to donate appreciated assets than to sell them and donate the cash proceeds).

7. Purchase business assets by year-end. Small businesses can write off up to $100,000 for qualifying equipment purchases. For brand new equipment, there is special 50% bonus depreciation (on top of expensing) with the remaining 50% deducted under the regular depreciation rules. Also, automobiles and light trucks can benefit if used for business. The maximum first year write-off has been increased from $4,600 to $7,650 ($22,950 for a new electric vehicle). Heavy vehicles used for business can do even better. SUVs and vans weighing over 6,000 pounds can be immediately deducted as part of the $100,000 equipment deduction.

Because some of these strategies are complicated and may even conflict with each other, be sure to consult a qualified advisor prior to implementation. Feel free to call us at 607-4820 or visit us on the Web at www.puckettadvisors.com.

Retirement adviser Brian Puckett, JD, CPA/PFS is a federally registered investment adviser. He offers securities through Cambridge Investment Research, Inc. a registered broker/dealer, member NASD/SIPC and federally registered investment adviser. Phone: (405) 607-4820 or Web: www.puckettadvisors.com.