Five Tax **DON'Ts** Before 2014

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As we approach 2014, it is time to review the last several months and think about what can be done in an effort to lower your taxes for 2013. Here are five tax tips to consider before year-end.

1 DON'T forget to maximize your retirement saving contributions.

If you turned 50 this year you are entitled to a catch up contribution of $5,500 for your 401(k). It is not too late to catch up for 2013. Also, anyone with compensation can contribute to an IRA. It's the deductibility of the IRA contribution that is subject to income limits. If you are not eligible to do a deductible Traditional IRA then consider a Roth IRA. The Roth IRA contribution limits are significantly higher than deductible Traditional IRAs. If your Adjusted Gross Income (AGI) is below the amounts listed, you can make a full IRA contribution. If your AGI is too high, you still have an opportunity to contribute to a non-deductible IRA. There is no income limit for non-deductible IRA contributions and the assets inside the IRA will grow tax deferred.

	2013	2012
IRAs		
IRA Contribution Limit	$5,500	$5,000
IRA Catch-Up Contributions	$1,000	$1,000
IRA AGI Deduction Phase-out Starting at:		
Joint Return	$95,000	$92,000
Single or Head of Household	$59,000	$58,000
SEP		
SEP Minimum Compensation	$550	$550
SEP Maximum Compensation	$255,000	$250,000
SIMPLE Plans		
SIMPLE Maximum Contributions	$12,000	$11,500
Catch-Up Contributions	$2,500	$2,500
401(k), 403(b), Profit-Sharing Plans, etc.		
Annual Compensation	$255,000	$250,000
Elective Deferrals	$17,500	$17,000
Catch-Up Contributions	$5,500	$5,500
Defined Contributions Limits	$51,000	$50,000

	2013	2012
Roth IRA		
IRA Contribution Limit	$5,500	$5,000
IRA Catch-Up Contributions	$1,000	$1,000
ROTH IRA AGI Contribution Phase-Out Starting at:		
Joint Return	$178,000	$173,000
Single or Head of Household	$112,000	$110,000

Source: Savingtoinvest.com

2 DON'T forget to review where you are with capital gains and losses.

Under the tax law there are now four long-term capital gains tax rates (0%, 15%, 18.8% and 23.8%). In the past you almost always wanted to tax-loss harvest to erase your gains. For 2013 and beyond, tax-loss harvesting is not always going to be the best answer. You may want to pay tax on long-term capital gains with a 15% tax rate knowing that if you wait until next year the long-term capital gains rate will be 23.8%.

Long-Term (L/T) Capital Gains Tax Brackets

Individual threshold	Married threshold	L/T capital gains rate
Up to $36,250 in taxable income	Up to $72,500 in taxable income	0%
$36,251 to $200,000	$72,501 to $250,000	15%
$200,001 to $400,000	$250,001 to $450,000	18.8%*
Over $400,000	Over $450,000	23.8%*

Source: The Kitces Report
*Includes 3.8% Medicare Surtax

3 DON'T forget to get your charitable donations done by year-end.

Contributions are deductible in the year made. Thus, donations charged to a credit card before the end of 2013 count for 2013. This is true even if the credit card bill isn't paid until 2014. Also, checks count for 2013 as long as they are mailed in 2013. Also, consider gifting appreciated securities instead of cash, which is very tax inefficient. Gifting stock with a fair market value of $3,000 with a cost of $1,000 could save $300 in tax ($2,000 x 15%), plus you still receive a charitable deduction.

For those of you not in need of your Required Minimum Distribution (RMD) for 2013, the law, allows tax-free transfers of up to $100,000 from an IRA to charity. Not having to report the RMD as income is a huge tax benefit that is much better that taking a charitable tax deduction.

4 DON'T forget to consider doing a Roth IRA conversion by December 31, 2013.

Roth conversions don't always carry a tax bill, and you can mitigate a tax bill by pairing tax strategies. For instance, you could increase your charitable deductions to match the amount of your Roth conversion. If a passive activity with suspended losses becomes unsuspended, that would be a great time to consider a Roth conversion. Remember, there are no income limits for Roth conversions. You have until October 15, 2014, to decide if a 2013 Roth conversion makes sense; this "out" is called a "recharacterization."

5 DON'T forget to bring your tax return if you are planning to meet with your advisor before year-end.

Discuss what has changed or is going to change in your personal and financial life. If you are contemplating the suggestions above or another tax planning idea, it is important to understand the tax consequences before you make the transaction. As an example, if you are considering a stock option exercise, should you do it this year or next? You have to run the numbers before you can decide.

Tax planning is a year-round exercise that requires active participation. If you want to lower your tax bill, work with your tax "quarterback," so you can always call the right play.

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