

Checklist to Cut Your 2013 Taxes

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Although 2013 tax rates have increased for certain high-income taxpayers, there is still time to take advantage of several tax-saving opportunities before December 31. Below are 10 ways to cut your 2013 tax bill and a few things to consider when planning for 2014.

1 Increase your 401(k) and 403(b) contributions if you haven't been contributing at the maximum rate all year. This year you can put up to \$17,500 into your 401(k) or 403(b) plan. Anyone aged ≥50 years by December 31 can put away an additional \$5500 (for a total of \$23,000). Contributing to a 401(k) or 403(b) plan at work is one of the best tax shelters available to you during your working years. You might also start thinking about setting your 2014 retirement savings goals.

2 If you're self-employed, consider setting up a Solo 401(k) by December 31. A Solo 401(k) plan allows a self-employed person to reach the \$51,000 retirement plan maximum with less income than with a SEP-IRA. It also allows a person aged ≥50 years to put an additional \$5500 (for a total of \$56,500) into a retirement plan for 2013.

3 Take a look at your withholdings and instruct your employer to withhold additional taxes if you haven't had enough taxes withheld during the year to avoid an underpayment penalty. Look at the Internal Revenue Service's (IRS) withholding calculator online to set your withholdings for 2014.

4 Consider selling your investments held in nonretirement accounts that have decreased in

value. Your capital losses can offset other capital gains realized during the year (including those from your mutual funds). Excess losses can then be used to offset up to \$3000 of wages and other income. However, make sure to wait at least 31 days before buying back any security sold at a loss, or the IRS will disallow the loss under the "wash sale" rules.

5 Consider selling your investments that have increased in value if you are in the 2 lowest tax brackets. You should consider this because the long-term capital gains rate for you will be 0%. You can then buy back those securities, and the "cost-basis" will be the higher amount. This strategy will save you taxes in the future when you sell these securities. Just make sure that the capital gains realized do not push you out of the 10% or 15% tax brackets, or you will be taxed on those gains that fall outside of those tax brackets.

6 Send in your January 2014 mortgage payment early enough so it will be processed before December 31, 2013. By sending in your payment a few weeks early, you can deduct the interest portion of that payment a full year earlier.

7 Clean out your closets and donate your clothing and household items to a charitable organization, because noncash contributions are deductible if you itemize. Don't forget to get a receipt, and you should make a list of each item donated, along with its condition, and take a few pictures as well. Remember, only donations of clothing and household items that are in "good condition or better" qualify for a deduction.

8 For gifts of money, making your donation by credit card before December 31 allows you to deduct the donation on this year's return, even if you don't pay your credit card bill until 2014. You always have the option of donating appreciated investments to charities. You get to claim your donation based on the value of the assets donated, without paying any capital gains taxes on the appreciation.

9 Prepay your projected state tax shortfall if you will be itemizing your deductions and not subject to the alternative minimum tax. Because of the higher tax rates enacted for 2013, there is a better chance that you won't be subject to the alternative minimum tax (AMT) this year.

10 Prepay and pay off your medical bills if your total medical expenses exceed 10% of your income and you itemize. Please note that this threshold remains 7.5% for people aged >65 years, whereas the threshold for everyone increased from 7.5% to 10%.

During December, you should evaluate whether you will save any taxes by postponing 2013 income or deductions into 2014 or by accelerating 2014 income or deductions into 2013. Although many factors should be evaluated before making your final decision, a few items to keep in mind include:

- For 2013, a single person will itemize once allowable deductions exceed \$6100 and a married couple will itemize once allow-



Lawrence B. Keller

Continued on page 40

Checklist to Cut Your 2013 Taxes... *Continued from page 37*

- able deductions exceed \$12,200
- A taxpayer is no longer subject to Social Security or to self-employment taxes once wages and net self-employment earnings exceed \$113,700 in 2013 and \$117,000 in 2014
- The AMT exemption amounts have been permanently “patched” for 2013 and for future years. For 2013, the exemption amounts are \$51,900 for single individuals and heads of household and \$80,800 for married couples filing a joint return and surviving spouses. For tax year 2014, the amount is \$52,800 (\$82,100 for married couples filing jointly)
- Obamacare surtaxes will continue to affect higher earners with a 3.8% surtax on net investment income and an additional Medicare tax of 0.9%
- Miscellaneous itemized deductions, such as unreimbursed employee business expenses, are only deductible to the extent that they exceed 2% of your adjusted gross income. Items paid with credit cards are deductible in the year that they are charged
- You should plan for a continuation of the 39.6% tax bracket for the highest earners (individuals earning more than \$406,750 and married couples earning more than \$457,600 in 2014), the phase out of personal exemptions, a limitation on itemized deductions, and a 20% tax rate on long-term capital gains and qualified dividends.

Don't Forget About IRAs

Even if you are covered under a retirement plan at work, you and your spouse can each contribute up to \$5500 into a traditional IRA or Roth IRA for 2013 and 2014, as long as your combined wages and net self-employment income exceed the

total amount contributed. Anyone aged ≥ 50 years can contribute an extra \$1000, increasing the total allowable contribution to \$6500.

Here is some good news for people looking to contribute to a Roth IRA. The amount you can earn and still contribute to a Roth has increased by \$3000 for married couples and by \$2000 for single individuals. When the phase out begins, the income amounts for single individuals is \$114,000 and for married couples, \$181,000. At the end of the phase out, the income amounts become \$129,000 for individuals and \$191,000 for married couples.

Even if you are covered under a retirement plan at work, you and your spouse can each contribute up to \$5500 into a traditional IRA or Roth IRA for 2013 and 2014.

If your income is too high for a Roth IRA, don't forget that the rules changed a few years back, eliminating the income limitation as of 2010 for people converting their IRAs to a Roth IRA. This tax law change provides high-income taxpayers with a great opportunity to get money into these tax-free investment accounts. For more information, please check out the article, “Think You Earn Too Much Money to Contribute to a Roth IRA? Guess Again,” which appeared in the March 2013 issue of *Oncology Practice Management*.

In addition, if you are married

and your spouse is not covered under either an employer-sponsored or self-employed retirement plan during the year, the 2013 phase-out range for your spouse making a deductible IRA contribution has increased to \$181,000 to \$191,000, which is identical to the Roth IRA phase-out limits.

Conclusion

This article provides 10 potential tax-saving opportunities for 2013 and a few things to consider in 2014. The key is to take the time to evaluate which of these concepts, if any, may work in your situation. Almost everyone is familiar with the old adage about life's 2 certainties: taxes, like death, are inevitable. But why pay more in taxes than you have to? In fact, Judge Billings Learned Hand once said “Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes.” ●

About the Authors

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