

## Year End Tax Planning-Valuable Moves You Can Still Make!

With less than 30 days before the end of 2007, now is the time for that final review of your tax picture and the time to make those final moves that may have an important impact on your tax bill or refund. Here are a number of tips for consideration:

- **The revised Kiddie Tax**-The age of application of the Kiddie Tax has risen to 18 and rises again in 2008 to 18 or to 24 for full time students. This is the year to pay out income to those over 18 that might otherwise be paid in 2008.
- **Tax Free Charitable Transfers from IRAs**-The Pension Protection Act allows for tax free transfers from IRAs to charities. The rule expires at the end of 2007 but is likely to be extended. There are strict rules and limitations that must be followed.
- **Accelerate Deductions**-Year end is the time to bunch expenditures and deductions that are subject to a 2% or 7% floor.
- **Delay Income-Not for too long-Higher Rates are coming**-With the coming election and budget woes, Congress may have no choice but to raise rates in 2009. 2007 and 2008 may be the years to take income at today's low rates, especially qualified dividends and capital gains.
- **Husband and Wife can report as a proprietorship**- Husbands and wives in business together can beginning in 2007 report their business income on Schedule C of their joint return and not file a partnership tax return.
- **IRA transfers to HSAs**-HSA participants can make a once in a lifetime tax free transfer from an IRA to their HSA. If there are large uninsured medical bills on the horizon, this may be a wise move.
- **New HSA Enrollee Contribution at year end**-A new enrollee at year end can make a full year's contribution.
- **Payroll Tax responsibility for Disregarded Entities**-Effective January 1, 2009, disregarded Entities (single member LLCs) will be required to file payroll tax reports and pay withholding. Now is a good time to plan for the change.
- **Residential Energy Tax Credit**-This could be as much as a \$500 credit for qualifying expenditures. This credit is set to expire at the end of 2007.
- **Converting Traditional IRA to Roth IRA**-If income is low enough to qualify, now is the time to convert. While you will be responsible for the tax currently, you will be able to withdraw the proceeds tax free, including the earnings.
- **Minimum Required Distribution from IRA**-Make sure you take those Minimum Required Distributions (MRD's) before year end to avoid the 50% penalty for failure to withdraw the required amount.
- **Small Business Opportunities**
  - **If you own a C corporation, pay dividends of accumulated earnings.**
  - **Look at income shifting opportunities to children and others-Kiddie Tax only affect unearned income. Pay your kids earned income.**
  - **Pay bonuses to reduce profit especially in a C corporation to avoid the double tax.**
  - **Put equipment in service to secure \$125,000 expensing deduction allowed by IRC Sec 179.**

- **Write down inventory.**
- **Deduct bad debts.**
- **Throw a holiday party for all employees not just the highly compensated.**
- **Delay sending year-end invoices.**
- **Accelerate discretionary deductible expenditures.**
- **Prepay rent or mortgage.**
- **Set up 401k or other qualified retirement plan by year end.**
- **Create a deferred compensation plan for key executives.**
- **Hire family members for the holiday season.**

As with all important tax and legal strategies it is vitally important to work closely with your professional advisors. For further information on these and other possible money saving strategies, please contact Jeff O'Brien or Earl Cohen at 612-339-4295. Have a great Holiday Season and a very Happy New Year.