PAUL H. BURGESS, ATTORNEY-C.P.A.

525 SOUTH MAIN, SUITE 800/TULSA, OKLAHOMA 74103-4511 (918) 599-7755 VOL. 38 DECEMBER 2015

Tax & Financial Newsletter

A good life strategy is to: (a) plan in decades, (b) think in years, (c) work in weeks, and (d) live in the moment. This Tax & Financial Newsletter starts with "thinking in years" for the five-step approach to saving income taxes. The Newsletter then provides ***Tax Tips!*** to "work the weeks" prior to year-end to save taxes. We don't recommend "live in the moment" for taxes. ☺

THE FIVE-STEP APPROACH TO SAVING INCOME TAXES

Most tax planning strategies utilize one or more of the following to reduce taxes.

1. Exclude from taxation the income and gains that you can. Examples of income that can be excluded include tax-exempt interest, employer cafeteria plans, Roth IRAs, some capital gains, etc.

2. Defer income that you must report. Continuously identifying strategies to defer recognizing income is an excellent tax reduction strategy. Some of the easiest deferral methods are: contributing to a pension plan, delaying a sale until next year, using installment sales, and like-kind exchanges.

3. Reduce that which you must report. Essentially, take advantage of the deductions and credits to which you are entitled. This may seem obvious, but it is not always readily apparent. Call us for assistance. We can help. Many times, implementing minor changes will yield nice tax savings with little effort.

4. Pay taxes on the rest. Some taxes simply cannot be avoided. Pay them.

5. Pay on the latest date possible without incurring penalties and interest. This includes strategically paying estimated tax payments, adjusting withholdings to avoid large overpayments or underpayments, and paying on the due date. Incurring penalties and interest for late payments merely off-sets tax saving strategies.

Business Tax Tips!

√ ***§179 Election and Bonus Depreciation*:** One of the best year-end business tax savings is taking advantage of depreciation for equipment purchased at the end of the year. Generally, a half-year's depreciation deduction is available for machinery, equipment, office furnishings, etc. even if it is placed in service in December.

Further, smaller profitable businesses can many times take advantage of the §179 expense election that allows a taxpayer to deduct up to $25,000 for certain assets. There are three primary limitations related to the §179 deduction, but overall most small businesses can utilize §179.

Currently, a bill is in Congress which, if passed, will increase the §179 deduction to $500,000 for 2015 and 2016. The same bill also revives the ability to deduct one-half the costs of most business assets, generally referred to as "Bonus Depreciation." Expect the law to pass right before the year ends.

There are some limitations for Bonus Depreciation, but all businesses typically qualify for it and most tangible personal property is eligible (real estate is not). There are circumstances when bonus depreciation, and sometimes §179, generates too big of a deduction. In those cases, taxes can increase in subsequent years. Competent tax assistance can identify those wasteful circumstances and work with clients to select a beneficial depreciation alternative.

√ ***Business Losses:*** You are not in business to generate losses, but they do happen. This is a list of possible business loss deductions:

1. Business Bad Debts
2. Casualty and Theft losses
3. Capital Loss/Worthless Investments
4. Losses on the sale of Business Assets

Sometimes it can be difficult to ascertain what year a business or investment loss should be written off. The general rule is write the loss off in the earliest year possible. To help gather the documents and evidence necessary to claim a business loss for 2015, please call us for assistance.

√ ***Home Office Deduction*****:** A home office deduction is a good deduction for small businesses or an employee working from home. Do not pass it up because of the perception it is "audit bait." A typical home office deduction is about $2,000 to $5,000. The IRS even has a new rule for an easy "safe-harbor" home office deduction of up to $1,500 a year.

√ ***Tax Basis****:* Make sure you have tax basis in all your partnerships, LLCs, and S corporations to deduct any losses. Increasing your tax basis can be accomplished by several methods including loans and capital investments.

√ ***Active Participation:*** Step up your level of participation in partnerships, S corporations, or LLCs to qualify as an "active participant" for flow-through entities reporting losses.

√ ***Sale of Loss Entities:*** Dispose of your interests in those flow-through entities in which you have "suspended" loss carryforwards.

√ ***Pension Plans:*** Set up pension plans before year-end and fund those plans. In many cases if a plan is "set up" by December 31, you can contribute to the plan as late as October 15, 2016 for a year 2015 tax deduction.

√ ***Payment by Check*****:** Cash basis businesses can date checks before the end of the year and mail them right before January 1, 2016 to obtain a 2015 deduction.

√ ***Pre-Paid Expenses & the 12 Month Rule:*** A cash basis taxpayer can typically deduct any amounts paid for a right or benefit that does not extend beyond 12 months after the date of the payment. Thus, a business can pre-pay expenses in December 2015 that are for 2016. For example, a business could enter into a three year automobile lease in December for a one-time $18,000 payment and deduct one-third of that payment in 2015.

√ ***Deferring Income to 2016*****:** Deferring income is an excellent method to slow down the cash required for taxes. Not only do current year taxes decrease, but, estimated tax payments for the following year can decrease. Some of the ways to defer income include: (1) electing the cash method of accounting versus the accrual method of accounting; many small businesses are reporting taxes on the accrual method when they could convert to the cash method; converting to the cash method can be made by the due date of the return including extension; (2) delay year-end billing to clients so that payments are not received until 2016; (3) take advantage of §1031 like-kind of exchanges for real estate; (4) electing the installment method of accounting; and, (5) delay selling gain assets until 2016.

√ ***Accelerating Income into 2015*:** If you are expecting a higher tax bracket next year or are in an unusually low bracket this year, consider accelerating income. Acceleration methods include: (1) selling gain assets before year-end; (2) taking distributions from pension plans; (3) converting a Roth IRA to a Traditional IRA; (4) electing out of the installment method of accounting; and, (5) elect slower depreciation methods.

Individual Tax Tips!

√ ***State Tax Payments:*** Pay your state estimated tax payment(s) that is due January 15, 2016 in late December. Consider paying all your state income tax liability before year-end. This strategy is especially useful if you have an unusually large increase in income for 2015. Keep in mind the alternative minimum tax may mitigate the advantages of paying state income taxes early.

√ ***Oklahoma Taxes:*** A good tax advisor pays close attention to Oklahoma state income taxes to make sure all the state tax benefits are claimed. Oklahoma has extensive state tax breaks that are not applicable to a federal return; and many Oklahoma taxpayers are eligible for "Indian Depreciation" that allows assets to be depreciated over a shorter period of time. For example, a 39 year depreciable life commercial building can be written off over 22 years! Feel free to contact us to make sure you are taking advantage of all your Oklahoma tax breaks.

√ ***December W-2 Withholdings:*** Avoid underpayment of estimated tax payment penalties by increasing your withholdings from your December paychecks.

√ ***Pension Plan Contributions:*** Increase your 401(k) contributions before year-end and take advantage of employer matching contributions.

√ ***Lower College Tuition by 5%:*** Take advantage of the Oklahoma §529 plans now by contributing to the plan in December, 2015 for January, 2016 college costs.

√ ***Charitable Contributions*:** If you are short on cash, a 2015 charitable tax deduction is possible by charging the contribution on a credit card and paying for it in 2016. Also, consider gifting appreciated property to your charitable organization for a deduction equal to its fair market value.

√ ***Single and Head of Household:*** If you are single and assist your parents financially, make sure you meet the support level test to file head of household instead of single.

PAUL H. BURGESS, ATTORNEY-C.P.A.

525 SOUTH MAIN, SUITE 800 TULSA, OKLAHOMA 74103-4511 (918) 599-7755 VOL. 38, DECEMBER 2015

Investment Tax Tips!

√ ***Retirement Account or Personal Investment?*** For three reasons, it is more tax efficient to hold stocks as personal investments (non-retirement accounts) and place interest bearing investments (bonds) in your retirement plans.

1. Investments that generate interest income are highly taxed. But, if those investments are held in a pension plan or IRA, income taxes are not due on the interest income.

2. Conversely, stocks held for growth (and even for dividends) are lightly taxed. Thus, hold stock investments in personal accounts.

3. Distributions from pension plans are typically subject to ordinary income taxes. If your pension plan has increased primarily from appreciated stocks, then in effect, the preferential tax treatment for capital gains has been lost upon a distribution.

√ ***Short-Term (ST) vs. Long-Term (LT) Capital Gains:*** Capital gains on property held one year or less (ST) are taxed as high as 50%. LT capital gains are taxed at about half as much. For taxpayers not in the highest tax brackets, the tax rate for LT capital gains can be as low as zero!

√ ***Dividend Taxes:*** Most stock dividends are taxed at LT preferential rates. Thus, dividend paying stocks, and in mutual funds, are tax advantageous investments.

√ ***Gift Appreciated Stock:*** One of the best tax savings strategies is for a parent to gift appreciated securities to their children. For example, suppose a parent owns stock worth $100,000 that they paid $40,000 for and it is time to sell the stock and realize the $60,000 LT capital gain. The parent would pay about $15,000+ in income taxes. A gift of the stock to a child (usually a young adult) in a lower bracket, in many instances, can reduce the income taxes to zero.

√ ***Defer the Sale:*** If you have a borderline holding period, consider holding the asset a little longer to take advantage of the favorable LT capital gains rates.

√ ***Oklahoma Capital Gain Exclusion:*** If you have appreciated Oklahoma real property or own stock, partnership interest or LLC membership interests in companies that are located primarily in Oklahoma, the capital gain, under many circumstances, can be totally excluded from Oklahoma taxation.

√ ***Offset Gains*****:** Consider selling capital assets that will generate a loss to offset any capital gains recognized earlier in the year. But, be careful not to waste the benefits of LT capital gains with ST capital losses.

√ ***Sell the Loss Stock and Buy it Back:*** If you have realized capital gains during 2015 and loss positions at year end, sell the underwater stocks, wait 31+ days, and buy the stock back in January 2016.

√ ***Avoid Fluctuations*****:** Net capital gains in 2015 and net capital losses in 2016 will likely waste deductions. Thus, a good tax strategy is to realize stock losses in years with stock gains.