2022 Year-End Tax Planning

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This year-end tax planning letter is different. Not only does it discuss planning ideas, but it also discusses the pros and cons of making year-end choices. Tax planning does not exist in a vacuum. It is dynamic. Tax planning is a big Rubik's Cube. When you take actions to accomplish a result, the consequences of those actions must be known before you take action. You do not want to say in 2023, “Why did I do that? What do I do now?” Often it will be too late to change history. With that in mind, please consider the following:

Plan Early: Do not wait until the middle of December to discuss with your professional advisors if planning will be helpful and what it will accomplish. Sometimes the best planning is to take no action . . . It is important to consider planning and make intelligent decisions based on confirmed facts or expected changes. Do not be blindsided.

Always Use Proforma Computations Where Possible: Before you implement any plan, your tax preparer should prepare a draft of your 2022 income tax return showing how the expected planning may affect both your Federal and State income tax liabilities. While the official IRS forms and State tax forms for 2022 may not yet be available, your tax preparer can still provide you with important information on how a transaction will affect your income tax liabilities. Remember that income tax returns contain many moving parts. Unfortunately, many taxpayers try to compute these adjustments and changes mentally without actually having their professionals "run the numbers". Some years ago, a client asked me about a proposed planning technique, and I asked, “Have you considered how the transaction affects the alternative minimum tax in your analysis?” The client did not, and after having his tax preparer do an analysis by taking the last year's federal income tax return and inserting the proposed changes, the client decided that the year-end planning technique was not worth it.

Don't Forget About State and Local Tax Considerations: When planning for transactions that affect Federal taxes, a thorough vetting of the State and Local consequences of those transactions must be evaluated. Many states and local tax rules do not follow the federal tax rules. Thus, it is important to do proforma state and local returns to measure the impact of proposed transactions. For example, some U.S. states, such as Florida, do not have a gift or estate tax. Consequently, a Florida resident's year-end gifting of personal property (such as cash and publicly traded securities) and Florida real property does not affect Florida residents. However, a Florida resident who makes a gift of real property located in another state could result in tax consequences in the other state since the taxation of a gifted real property is determined by the state where the real property is located.