

Year End Tax Planning White Paper

In case you have not noticed, each year has some sort of tweak or adjustment to the tax code. It seems that whomever is elected to political office, or whichever party has the majority makes it a point to address some sort of change to make tax filing “easier”. However, what we often see is that tax preparation continues to get more complicated for the average US citizen no matter which party holds the majority, or which political “messiah” is elected.

There is a long-held myth that the US tax code is over 70,000 pages. While not exactly true, the truth is that nobody, including the Internal Revenue Service (IRS) knows exactly how many pages or how long the code book would be if they printed it out. For the 2018 tax filing season the IRS has gotten the form down to 23 lines, but 6 new schedules. That does not sound like things are getting any easier for tax filers. Now, more than ever, it is important for tax filers to meet with their tax preparer during the year to ensure they are on the right track.

Most people choose to meet with their tax preparer during the tax filing season of January through April. This is the time of year when tax preparation and filing are on most people’s minds. However, having your meeting with your tax professional during this period is often too late. The calendar year has ended and any deductions or advantages you could have made for this tax season have expired. One thing to remember about tax filing, it is always in arrears. For example, it is now 2019. We are filing for tax year 2018 this year. Any new laws that took effect on January 1, 2019 are probably not going to affect your taxes for the 2018 filing year, which is occurring in 2019.

The best time of year to meet with your tax preparation professional is usually in the fall between October 16th and December 20th. Now, that may seem awfully late in the year. However, your tax professional is just completing tax returns for individuals on extension (usually due October 15th) and let’s be honest, after December 20th everyone is basically on Christmas vacation whether physically or mentally. By at least addressing issues in the final quarter of the year it can give someone time to take advantage of a deduction or adjust payroll withholding or even make a purchase they have been holding off on, not realizing that they may have made too much money and need to find something to adjust their tax position.

The year-end tax planning meeting also has advantages for your tax preparer. Coming into the filing season after the first of the year, this puts them in a better position to complete your tax return in a more efficient manner. You already have an idea of what information to provide your preparer, other than the usual W2’s and 1099 documents you usually receive in late January or early February. Plus, it is a great time to review what laws and regulations Congress has passed over the last year that are going to impact your income and ultimately affect your taxes.

If you are a business owner, not only should you be having year-end tax planning meetings with your tax preparer, you should also keep those lines of communication open throughout the year. There are usually some sort of deductions a business can take advantage of at the end of each year.

Some of these deductions can even benefit employees of the business. However, if the business owner is not aware of them, chances are they are not going to be able to take advantage of them before the calendar runs out. At that point everyone is left out in the January cold.

When meeting with your tax preparer it is best to come with questions and provide honest information about where you stand financially throughout the year. If you can give your tax preparer an idea of what you are trying to do, it does help them help you plan for the future. Many people like to keep these ideas and plans to themselves, only to find out later that their idea or plan has negative tax consequences.

So maybe you are a “do it yourself” kind of person and think that having an accountant prepare your tax return is an expense you would rather not have. However, you do not have the time to keep up with the changes that are affecting taxpayers and you may have had some life circumstances that will have an impact on your financial position. While a tax preparers advice is not free, you should schedule an hour of time with a tax professional to at least get some advice on how best to prepare your income tax return. That money you just spent could save you much more down the road if you are able to avoid an audit or penalty for misfiling your tax return.

The year-end tax planning session is an important tool that is often ignored by many. Those that take advantage of it often save money in preparation fees and overall tax paid. Those that choose not to participate are often complaining that they owe too much tax, or that their bill is too expensive, and that the preparation took too long. Those clients often get moved to the bottom of the pile as tax preparers often want to work with organized clients that do not complain. Taxes can be an overwhelming experience for many people. It doesn’t have to be should you choose to hire a tax professional and discuss your overall financial goals and objectives with them throughout the year.