It's time to start thinking about reducing your 2014 income tax bill

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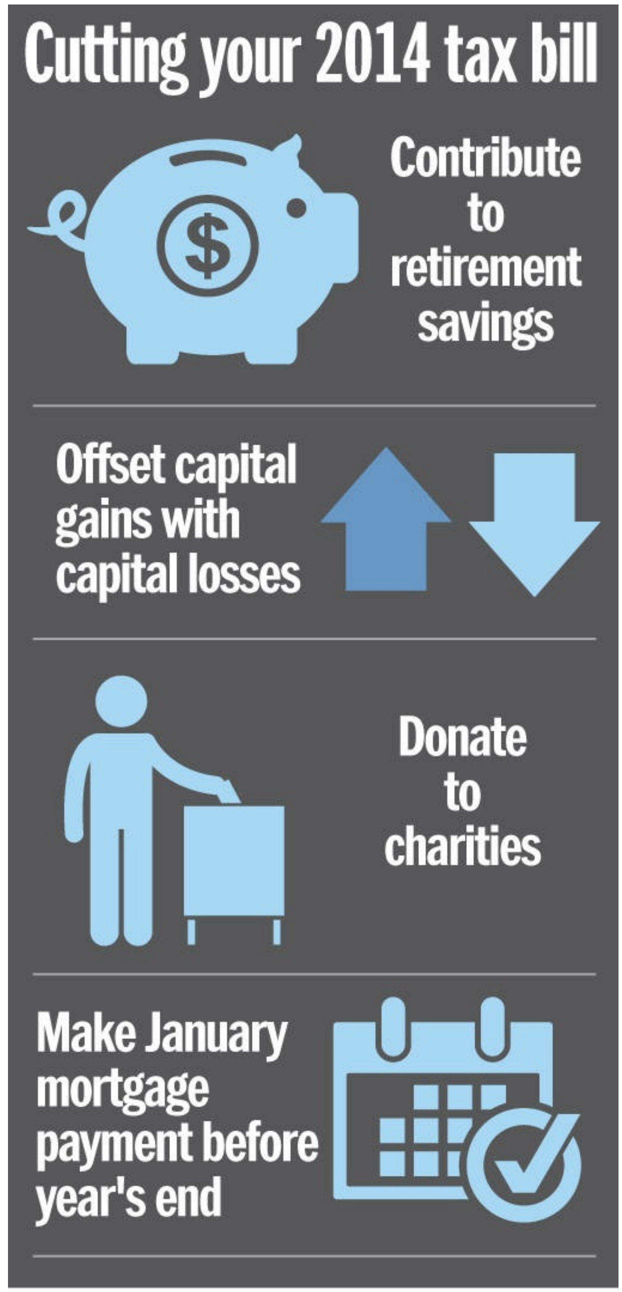
Common sense holds it's never a good idea to wait to the last minute.

So far as some taxes are concerned, Congress is doing just that. But try not to follow its example.

Although the fate of federal legislation impacting a number of tax laws remains uncertain, it's still beneficial for taxpayers to approach year-end tax strategies as a proactive opportunity to save money.

"Tax laws are merely a series of incentives," says Tom Wheelwright, CEO of the Tempe, Arizona-based tax firm ProVision and author of "Tax Free Wealth." "Whether it's for your retirement or education, it's essential to look at taxes as financial incentives."

No matter your financial priorities, with several weeks to go before 2014 calendars head for the recycling bin, give some thought to these savvy tax strategies.



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Watch the 'extenders bill'

When 2013 came to a close, so too did a host of tax laws that mattered to millions of taxpayers, including:

• Deduction of mortgage insurance premiums

• "Above the line" deduction for higher education costs (meaning expenses up to $4,000 could be deducted before gross income was calculated for tax purposes)

• Tax-free distributions from individual retirement plans for charitable purposes. This applies to people subject to required minimum distribution rules — see below.

These and other tax measures — more than 50 in all — are part of a "tax extenders" package that may or may not be considered by the lame duck Congress before the end of the year, leaving taxpayers in a state of limbo.

"As of now, we don't know for sure what the tax laws are going to be," says Joseph Anthony, a Portland, Oregon, enrolled agent and tax preparer.

So, keep an eye on the so-called extender's bill as the calendar slides toward 2015, and stay in touch with a tax pro tc know just how to approach overall tax planning.

Retirement savings

Some elements of tax planning always make sense, no matter the political climate. One of those is taking time to review retirement plan contributions for the year. Contribution limits for 2014 are as follows:

• Traditional and Roth IRA — $5,500

• 401K, 403b and simplified employee pension — $17,500

• Simple IRA — $12,000

Whether you can deduct any or all of your contributions to a retirement account depends on the specific plan (check with a tax pro or consult the Internal Revenue website at http://www.irs.gov.) And, as Dallas CPA Wray Rives adds, people over 50 may be allowed even higher contribution levels under IRS "catch up" provisions.

Capital gains

Capital gains — taxes that apply to profits from the sale of an investment, such as stock or real estate — may seem a rather pleasant problem to deal with. But those with gross annual income in excess of $200,000 — would do well to mitigate those gains. Rives points out that 2013 was the first year of an "income excise tax" — a 3.8 percent tax on certain forms of investment income.

"While capital gains are generally taxed at a lower tax rate than ordinary income, some of that lower rate is lost to the investment income tax," says Rives.

One effective strategy is to time capital losses to help offset any capital gains — sell off investments that have lost money to counter the tax effects of profitable investments. "You can even consider writing off any worthless securities you still own," adds Rives.

But don't let tax considerations dictate investment strategy. Only sell off losing investments if they don't seem worth holding onto from an investment standpoint. "Sell it if you really feel that it's a good idea," cautions Wheelwright.

Charitable giving

For many taxpayers, charitable giving remains fairly clear cut as 2014 winds down. One rule of thumb is simple — high income earners should look to charitable giving before year's end to reduce their overall tax burden. "If you had a good year so far as income, it's a good year to give to charity," says Anthony.

Capital gains can also prove advantageous to charitable giving. Consider donating stocks and other investments that have increased in value in lieu of cash. That not only avoids capital gains tax, but the full donation can be deducted from taxable income. "And, if you like, you can just turn around and buy the stock again," Wheelwright says.

Another charitable giving option exists for older people. Prior to the expiration of tax laws included in the extenders bill, people 70.5 years and older could make tax-free charitable contributions directly from their IRAs. The deal was sweet — not only were charitable withdrawals tax-free (unlike conventional withdrawals), they fulfilled the requirement that those who qualify begin making annual withdrawals from their retirement accounts.

No matter what happens on the legislative front, Anthony suggests that older taxpayers who want to use their IRA withdrawals as a vehicle for charitable giving still do so. If Congress reinstates the tax-free donation provision, they're in the clear, tax-wise. And, if nothing happens, they'll owe taxes on the distribution — something that, since they're bound by law to begin making retirement account withdrawals, would have occurred anyway — and they'll be able to take an itemized deduction for the value of their gift.

Other steps to consider

A few other year-end tax-related dos and don'ts:

• Pay your January mortgage before the first of the year and get an extra month’s mortgage interest deduction.

• Take advantage of workplace flexible spending accounts. These let you set aside pretax dollars for qualified health care or dependent care expenses. Putting money in by Dec. 31 saves on current year taxes and sets you up to meet next year’s bills. Also, if you have funds that you stand to forfeit once the new year arrives (the “use it or lose it” provision), try to spend that money on some form of appropriate health care cost.

• Organize any relevant paperwork if you purchased health insurance through a healthcare exchange under the Affordable Health Care Act. You’ll have additional reporting in your 2014 return to reconcile your income to the projections you used when signing up for coverage.

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