The year is drawing to a close, and many people are making holiday plans for visiting with family, decorating and buying holiday gifts. Along with all this spirited cheer, there is another important consideration on the horizon: your year-end tax planning. This may seem overwhelming, but it does not have to be. For instance, have you considered making a generous financial gift to your relative, oldest friend or top charity? You have until the end of the year to make a gift to a relative and friend. Annual gifts are good for those who want to maximize how much can be pushed down to the next generation while preserving the unified credit. Charitable donations are a superb way not only to spread good cheer but to reduce your tax burden for the year — and they don’t even need to be wrapped!

However, it is important to remember key provisions regarding tax laws that will need to be followed when making these types of transfers. Here are a few thoughts on how to use these provisions and avoid any issues with the IRS, as well as some other year-end tax items to consider.

Overview of Some Personal Donations and Their Benefits

Cash Gifts

Gifts of money are the most direct and often simplest form of donation you can make. For that reason, there are certain benefits to using this type of donation and keeping it to a relatively small amount. For example, did you know that under IRC Section 2503(b), if you keep your gift to one person under $14,000 (for 2015 and 2016) in a calendar year, you do not have to file a gift tax return? This is called the “annual exclusion” and it means you could potentially give this amount to multiple people, or $28,000 to a married couple, tax-free.

Another bonus of cash gifts and other types of gifts by married couples is that you can also take advantage of a process called “gift splitting.” This means that you can double your own annual exclusion of up to $14,000 by distributing it as a couple. For example, a gift of $10,000 that is given by one spouse to one person would be recognized by the IRS as only $5,000 for that donor and $5,000 for the other non-donating (but consenting) spouse. If you give more than $14,000 in cash, property or gifts to anyone, you must report the gift on Form 709.

Here is another example to help illustrate this: if one married couple gives their child a gift of $28,000, then the IRS would again recognize this as one parent giving $14,000 (half) and the other parent giving $14,000 (other half). In addition, if this married couple wanted to also give the child’s spouse a gift of the same amount — so yet another $28,000 — they could do it. So once again, one parent would be credited with giving the child’s spouse $14,000 (half) and the other would be recognized for the other $14,000 (other half). Therefore, the yearly maximum one couple can actually give to another couple is four times the amount under $14,000, so in this case it would be $56,000. Following these rules allows a couple to maximize their gifts — but keep in mind: you’ll still have to file a gift tax return.

Now, as for any gifts that exceed $14,000 per recipient, these gifts are taxable. However, until the recipient reaches the lifetime exclusion amount, there isn’t any gift tax due. Anything over the $14,000 limit would not be taxed until it accumulated to the current $5,430,000 lifetime exemption limit pursuant to Rev. Proc. 2013–35. So every $1 over $14,000 would count toward that lifetime limit. There are, however, exceptions for these gifts. For example, if you make financial gifts toward medical bills or tuition expenses at a hospital or university, these limits would not apply.
## Donations to Charities

Giving a contribution to a favorite charity organization is a wonderful way to reduce taxes and to give back philanthropically. However, if you are planning to give to your choice charity before the end of the calendar year, make sure you note the following:

- You must file Form 8283 if the amount of your deduction for all non–cash gifts is more than $500. For this purpose, the “amount of your deduction” means your deduction before applying any income limits that could result in a carryover.
- Document the transactions for your records and to ensure the gifts are deductible. Keep in mind that you should obtain an appraisal for gifts over $5,000. You do not need to include appraisals with your tax return, but you should keep them for your records. It is encouraged that you refer to the Instructions for Form 8283 for clarification.
- Any car donations that are greater than or equal to $250 would need an accompanying written statement from the recipient organization that includes details about the donated car.

Another way to give a financial gift is to give a contribution of mutual funds, bonds, stocks or securities. This giving method has become increasingly popular in recent years, since certain stock gains can be donated to a public charity with up to a 30 percent tax deduction from the donor’s adjusted gross income. If the stocks or bonds were sold, those gains would be taxed as capital gains. Since they are given away as a charitable contribution, the capital gain treatment does not apply. Thus, the higher the value of the gift, the greater the overall tax benefit received.

Also, keep in mind that you cannot deduct donations given to social clubs, political groups or foreign organizations as charitable donations.

## Other Year-End Items to Consider

Whether or not you decide that charitable giving is something you want to do this winter, it is vital to remember some basic planning items. Below are several basic tasks you should do before the end of the calendar year to prepare for the new months ahead.

### Consider Your State Residency

If you spend your time in either two, three or more different states throughout the tax year, then you need to figure out where you will be taxed and what the implications are for the tax laws in that state. The rule of thumb is that if you spend at least half the year, around 180 days or more, in one state, then this is where you will file as a resident. However, you may still be subject to tax in other states as a non–resident. Thus, it is essential to document where you are and when in order to make this process easier on yourself and the taxing authority of the states where you spent time.

### Capital Gains and Loss Reporting

If you do decide to sell stocks, bonds, mutual funds or securities instead of giving them away as a charitable donation, there are a few rules to keep in mind. First, since you have control over when you sell the stocks, you will have to pay attention to the timelines of the selling and buying. Reviewing your portfolio prior to year–end is a good idea in order to see if there are any losses that can be cultivated to offset gains that may have already been realized earlier in the year. This is often referred to as tax loss harvesting. This way you can track what will be counted as income and be subject to tax.

Another item to remember: if you buy or sell the same stock or bond within a 30–day period, you may be subject to different losses or gains. The IRS created the “wash sale” rule to prevent investors from recognizing artificial losses by first selling a security for a loss and then repurchasing the same security within a short period of time. If you sell a security at a loss and buy the same or “substantially identical” security within 30 calendar days before or after the sale, the loss is typically disallowed for current income tax purposes.

Remember, wash sale rules are not confined to calendar years. The rules use a rolling calendar. Wash sales are explained in Publication 544. Refer to the instructions on Form 8949 for specific reporting requirements.

### Document Your Deductions

© 2019 Alvarez & Marsal Holdings, LLC. All rights reserved.
Itemizing your deductions can be a great way to maximize the tax benefit of allowable expenses you paid during the year for things like home mortgage interest and property taxes, state income or sales taxes, medical expenses, and charitable donations that exceed the standard deduction for your filing status. For tax year 2015, these are some of the standard deductions:

- Standard deduction for single taxpayers: $6,300
- Standard deduction for married taxpayers filing a joint return: $12,600
- Standard deduction for head of household taxpayers: $9,250

Keep in mind, some people get even higher standard deductions. If you’re 65 or older, you get to increase your standard tax deduction. These rules are explained in detail on the Instructions for Schedule A (Form 1040).

If you itemize, you can deduct a part of your medical and dental expenses and unreimbursed employee business expenses, as well as amounts you paid for certain taxes, interest, contributions and miscellaneous expenses. For example, if you have an expensive surgery or other medical procedure that results in a high out-of-pocket cost, you should consider scheduling the procedure, follow-up visits and purchase of expensive prescriptions in the same tax year so that the combined expense counts toward the 10 percent threshold.

**Alvarez & Marsal Taxand Says:**

By remembering to complete these steps covered, you will be in a great position when it comes to this upcoming tax season and many tax seasons to come. Pay close attention to the details of your transactions and ensure that you have proper documentation. Everyone is encouraged to consult their tax professional for guidance when making a sizable gift. Families of considerable means and with complicated estate plans are encouraged to consult with the appropriate tax and legal professional for guidance tailored to your specific situation.

At Alvarez & Marsal Private Client Services, we are here to help our clients meet their objectives. We have a broad skillset across our professionals dedicated to serving our clients’ needs. We provide centralized management of financial affairs for high-net-worth families and individuals. We focus on details that allow our clients to focus on their entrepreneurial, creative and philanthropic passions.

**Reference:**

IRS Code Sections
26 U.S. Code, Title 26, Subtitle B, Chapter 12, Subchapter C, Section 2522
26 U.S. Code, Title 26, Subtitle B, Chapter 12, Subchapter A, Section 2503
26 U.S. Code, Title 26, Subtitle B, Chapter 13, Subchapter A–G, Section 2601–2664

**Authors**

*Alan Kirschenbaum [2]*
Managing Director, Miami
+1 305 704 6690

*Marc DePaul [3]*
Senior Director, Miami
+1 305 704 6699

**For More Information**

*Vicky Castro [4]*
Senior Director, Miami
+1 305 704 6735

Kenneth Dettman
Director, Miami
Related Issues

12/10/13
Time for Year-End Planning... and We Don’t Mean Holiday Parties!! [5]

07/16/13
A New York State of Mind: Mind Your Residency [6]

06/12/12
Bonus Time! A Discussion of the Timing of Bonus Deductions [7]

Disclaimer

The information contained herein is of a general nature and based on authorities that are subject to change. Readers are reminded that they should not consider this publication to be a recommendation to undertake any tax position, nor consider the information contained herein to be complete. Before any item or treatment is reported or excluded from reporting on tax returns, financial statements or any other document, for any reason, readers should thoroughly evaluate their specific facts and circumstances, and obtain the advice and assistance of qualified tax advisors. The information reported in this publication may not continue to apply to a reader’s situation as a result of changing laws and associated authoritative literature, and readers are reminded to consult with their tax or other professional advisors before determining if any information contained herein remains applicable to their facts and circumstances.

About Alvarez & Marsal Taxand

Alvarez & Marsal Taxand, an affiliate of Alvarez & Marsal (A&M), a leading global professional services firm, is an independent tax group made up of experienced tax professionals dedicated to providing customized tax advice to clients and investors across a broad range of industries. Its professionals extend A&M’s commitment to offering clients a choice in advisors who are free from audit-based conflicts of interest, and bring an unyielding commitment to delivering responsive client service. A&M Taxand has offices in major metropolitan markets throughout the US., and serves the U.K. from its base in London. Alvarez & Marsal Taxand is a founder of Taxand, the world’s largest independent tax organization, which provides high quality, integrated tax advice worldwide. Taxand professionals, including almost 400 partners and more than 2,000 advisors in nearly 50 countries, grasp both the fine points of tax and the broader strategic implications, helping you mitigate risk, manage your tax burden and drive the performance of your business.

To learn more, visit www.alvarezandmarsal.com [8] or www.taxand.com [9]

Source URL: https://www.alvarezandmarsal.com/insights/its-time-year-again

Links