Year End Tax Planning for Individuals

by Sam Ashley

As the end of the year quickly approaches and we all start thinking about holidays, it is also worth giving some thought to your US taxes. In this article you will find a number of simple and potentially tax saving options that you may want to consider ahead of the close of the tax year. You should of course review your own tax situation with a professional advisor before implementing any of these ideas for yourself.

Charitable Contributions

Taxpayers who itemize their deductions on Schedule A can claim deductions for cash and property donated to charity. Contributions to charity are deductible in the year they are made. This includes cheques mailed before December 31 and also credit card payments, even if the credit card bill isn't paid until the following January.

When making any contribution for which you would like a US tax deduction, you should firstly ensure that the donations are made to an eligible charity. Generally contributions made to non US registered charities are not deductible on your US income tax return. The IRS lists organizations eligible to receive tax deductible contributions at www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check

You should also ensure you keep records of all donations made. The documentation required varies depending on the type and value of the donation so please ask us for guidance if there is any doubt.

Advancing Payments

There are a few payments which can assist with your US liability if paid at the correct time:

Foreign Tax Liabilities: If you have a liability in a foreign country which relates to income that will be taxed on your 2015 US tax return you should ensure that tax liability is paid before December 31, 2015. You should do this even if the liability is not due to be paid until the following year (for example, by 31 January 2016 for UK tax returns). This will ensure that when the income is taxed in the US you also have the foreign tax credit to offset the US tax liability.

State Tax Payments: If you are paying estimated US State taxes you should consider accelerating your fourth quarter estimated payment due on January 15, 2016 and pay this before December 31, 2015. Again by doing this you may be able to claim an itemized deduction on Schedule A for the additional tax paid in December rather than having this deduction in the following year, so credit is given a full 12 months earlier by accelerating the tax payment by just 2 weeks

US Real Estate Taxes: If you have a property in the US and have real estate tax due to be paid next year, once again you might consider making that payment in 2015 to maximize your itemized deductions along with the charitable contributions and state tax payments on Schedule A of your income tax return.

Pensions & Retirement Savings

For US taxpayers with excess foreign tax credits making contributions to a pension may be a useful way to soak up some of those excess credits. This is particularly true for US citizens who have been overseas for 10 years or more.

After 10 years your excess foreign tax credits will start to expire. If you are already a member of a UK pension plan you will potentially be allowed to use any unused annual personal allowances from the previous 3 years to maximise your contribution to the pension. Tax Advisory Partnership published a more detailed article regarding these arrangements with Tanager Wealth Management in the August issue of *The American*.

You should also not forget your US based retirement savings plans (also known as IRAs). You are able to contribute up to $5,500 ($6,500 if you are age 50 or older) each year. The good news is that these contributions do not need to be made by December 31, 2015 and instead you have until April 15, 2016 to make contributions which may still be deductible on your 2015 US income tax return.

Use Your Gift Tax Exemption

Good estate tax planning can often start with ensuring you are utilising your annual gift exemptions. By ensuring you utilize your annual gift tax exemptions you are able to retain your full lifetime estate tax exemption which is currently $5.34 million.

A US person can gift up to $14,000 per donee and a husband and wife can gift up to $28,000 to a single donee without needing to report those gifts to the IRS. Gift tax reporting usually falls to the donor rather than the donee.

If you are a US person who is married to a non US person you are also limited in the amount that you are able to gift to your spouse. The maximum annual exemption for gifts to a non resident spouse is $145,000. Gifts exceeding this amount would need to be reported via a gift tax return and would reduce your estate tax exemption.

These are just a few of the year end tax planning options that may be worth considering in good time to ensure you maximise the benefit to reduce your US tax liabilities. The team at Tax Advisory Partnership are happy to assist you in reviewing your tax affairs and with any of the ideas discussed here or any other US and/or UK tax issue. ★

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