



# CLIENT TALK

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## YEAR END TAX PLANNING 2001

### RATE REDUCTION PLANNING OPPORTUNITIES

Now is the time to finalize tax planning for 2001 and to begin tax planning considerations for 2002. The Economic Growth and Tax Relief Reconciliation Act of 2001 has made some interesting tax planning options.

Tax rates were slightly reduced for 2001 and are going to be further reduced in 2002. Therefore, **income should be deferred until 2002** to take advantage of the lower tax rates. Conversely, **expenses should be accelerated in 2001**. Self-employed individuals and businesses should consider **postponing the collection of accounts receivable** until next year. Sales of assets with built-in **gains should be postponed until next year**, and sales of assets that generate **loss should be sold this year**.

Individuals should **defer any bonuses until next year**. **Prepay deductible expenses in December** such as state taxes due by the end of the year, and the January mortgage payment.

### EDUCATION IRAS

Make contributions to education IRAs, now called Coverdell Education Savings Accounts, before December 31. Contributions to these accounts, unlike IRAs and Roth IRAs, are counted in the year the contribution is actually made. A contribution made between January 1 and April 15, 2002, cannot be credited for 2001. Therefore this \$500.00 contribution to the account needs to be made in 2001.

### HIGHER EDUCATION EXPENSES

If possible, higher education expenses for qualified tuition should be **delayed** until after 2001. Beginning 2002 such expenses will be deductible to a maximum of **\$3,000.00** per year for taxpayers with less than

\$130,000.00 of adjusted gross income (married couples filing jointly).

### GIFTS

Review gift giving plans intended to reduce potential estate tax. Due to the increase in estate tax exemptions until estate tax repeal in 2010, the first issue is whether the gift is necessary for tax purposes. **Estate plans should be immediately reviewed** in light of the new educational savings incentives that are effective beginning in 2002 and estate tax rate reductions.

### LIFE INSURANCE

Life insurance to pay estate taxes may not be necessary. **Do not purchase life insurance without a complete review of your estate tax plan.**

### SPECIAL ELECTION FOR CAPITAL GAINS

There is a special capital gains election for property held for five years or more reducing the rate to 18% from 20%. If property was acquired prior to 2001, the election can be made with tax due as if the property were sold on January 1, 2001. This may be advantageous if you have property that has little or no current gain, but you anticipate significant capital gain in the future.

### CONCLUSION

1. **Defer income** until 2002.
2. **Accelerate expenses** prior to December 31.
3. Make education IRA **contributions**.
4. **Review** your estate and gift-giving plan.