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THE IMPORTANCE OF YEAR-END TAX PLANNING

Tax planning this year has been overshadowed by a bear market, which left many individuals with substantial realized and recognized losses, and a weak economy has hit individuals and businesses alike. On the plus side, some tax relief did materialize in 2002. New or improved tax breaks that can reduce an individual's 2002 tax bill include higher phaseout ranges for the student-loan interest deduction, a new above-the-line deduction for higher-education expenses, higher contribution limits to IRAs, 401(k)s, 403(b) annuities, salary reduction SEPs and Sec. 457 plans, higher elective deferrals to SIMPLE plans, and for those age 50 or older, "catch-up" contributions to IRAs as well as to qualified plan, SEPs and SIMPLE plans. Businesses get enhanced first-year depreciation deductions for most types of new depreciable property (other than buildings) and a temporary increase in the NOL carryback period.

 # KEEPING THESE AND OTHER TAX BREAKS IN MIND, HERE'S A CHECKLIST OF THE MOST IMPORTANT ACTIONS THAT SHOULD BE TAKEN NO LATER THAN DECEMBER 31, 2002, TO SAVE TAXES

- Postpone income until 2003 and accelerate deductions into 2002 to lower your 2002 tax bill. This strategy may enable you to claim larger deductions, credits and other tax breaks for 2002 which are phased out over varying levels of adjusted gross income (AGI). These include Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child credits, higher education tax credits, the new above-the-line deduction for higher-education expenses and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2003. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.

- Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later.

- If you are fortunate enough to be expecting a bonus, you may be able to arrange with your employer to defer the bonus (and your tax liability for it) until 2003.

- If you are a partner or an S corporation shareholder, take steps to increase your basis in the partnership or S corporation to make possible a 2002 loss deduction. For example, if a shareholder wants to claim a 2002 S corporation loss on his own 2002 return, but the loss exceeds the basis for his S corporation stock and debt, he can still claim the loss in full by lending the S corporation more money or by making a capital contribution by the end of the S corporation's tax year.

- Use your credit card to prepay expenses. For example, charitable contributions and medical expenses are deductible when charged to an individual's credit card account (e.g., in 2002) rather than when she pays the card company (e.g., in 2003).

- Pay contested property taxes to deduct them this year while continuing to contest them next year.

- Put new business equipment in service before year-end to get the special first-year 30% depreciation allowance, plus six months' worth of depreciation deductions on the remaining adjusted basis (or plus 1.5 months' worth of depreciation deductions on the remaining basis if the mid-quarter convention applies).

- If you run a business, make expenditures qualifying for the $24,000 business property expensing option (but note the amount which can be expensed generally is reduced dollar-for-dollar for eligible property placed in service during the tax year in excess of $200,000).

- Settle insurance or damage claims if this will maximize your casualty loss deduction for 2002.

- Apply the "bunching strategy" to miscellaneous itemized deductions, medical expenses and other itemized deductions to maximize your itemized deductions.

- Increase your withholding before year-end to eliminate or reduce an estimated tax penalty.

- If you expect to owe state and local income taxes when you file your return next year, ask your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2002.

- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2002, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. This includes the deduction for state property taxes on your residence, state income taxes, miscellaneous itemized deductions and personal exemption deductions. Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.

- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.

- Make gifts to family members to take advantage of the $11,000 gift tax exclusion ($22,000 for gifts made by married couples) that applies to each donee for 2002. (You get no carryover of any unused exclusion - it's a "use it or lose it" benefit.)

- Watch out for the marriage penalty in regard to year-end marriage or divorce plans. For example, suppose two single people have substantial and relatively equal amounts of taxable income and are contemplating marriage. They can avoid being hit by the marriage penalty for 2002, and thereby avoid increasing this year's tax bill, by deferring the wedding until after December 31, 2002. Additional tax savings may be realized if both of them are receiving Social Security benefits (deferring the wedding until 2003 may result in a smaller percentage of their benefits being subject to federal income tax).

- Step up the level of your participation in a business activity to meet the material participation standard needed to avoid the passive loss rules. Also, consider disposing of a passive activity to free up suspended losses.