The Wealth Advisor

Act Now, Save Later

10 Year-End Tax Planning Strategies to Discuss with Your Financial and Tax Advisor Before the Holidays

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The Duvall Law Firm believes in taking the "team approach" to estate & business planning. Providing effective, responsible service to our clients leads us to build and maintain relationships with clients' professional advisors. Cooperation is the cornerstone of our relationships with both advisors and the clients we serve together.

As summer draws to a close, tax time seems like a world away for most of us. We're preoccupied with squeezing in that last vacation and/or getting the kids ready to go back to school, and once we settle into our fall routine, the holidays are right around the corner. The last thing we want to do is think about taxes.

However, the financial decisions you make now can have a huge impact on your tax burden going into next spring. Too many people miss out on significant tax savings simply because they fail to plan in advance. This is why year-end tax planning is so important, and why you should start thinking about it now, before the holiday season consumes your attention.

The good news is that making even a few small tweaks to your financial strategy before the end of the year can add up to thousands of dollars in tax savings in 2017. Now is the perfect time to talk with your financial advisory team about year-end tax planning so you're not left scrambling during the holidays. When you schedule your appointment, here are 10 key areas to assess.

1. Review changes in the tax laws for 2016. The tax laws change every year—sometimes a little, sometimes a lot. Even small changes in the law can have a positive or negative effect on your tax bill, depending on your situation. This year, the IRS released perhaps the most significant regulation change in decades. You may have heard about these in the news as the "2704" regulations or "valuation" regulations. Although these regulations are not yet being enforced, they might substantially impact your estate plan when the IRS finalizes them, potentially as early as January 2017. If you have any questions about these new regulations, we'd be happy to discuss their impact on you, your estate plan, and your taxes.

2. Review significant changes in income/employment. By this time of year, you should have a pretty good idea whether your income is set to increase or decrease significantly in 2016. A sizeable shift either way could have a pronounced effect on your tax burden. Did you get a new job? Lose a job? Did you start receiving rental income? Royalties on intellectual property? Did you start a new business or perhaps expand an existing one? Review your current income streams with your advisor to determine how to prepare for any changes in your taxes. If you started a new business this year, it's especially important to get insight from your planning professionals to make sure the business is structured properly for your best tax advantage.

3. Review your investment portfolio. Before looking at the next couple of strategies, review your current investment portfolio with your advisor and see whether anything stands out as an actionable item. Do you have stocks or mutual funds that are underperforming, or that have appreciated to a tipping point? Are there any strategic stocks that show promise for next year that you should consider adding? Your advisor may have some key suggestions at this time for adjustments to your portfolio that can keep your taxes manageable while putting you in a good position for next year.

4. Manage capital gains. Timing is everything when reaping capital gains, especially when it comes to taxes. If you're thinking about selling property (like a rental house or vacation property) at a gain, talk to your advisor about capital gains tax impact because it might make sense to delay the closing until early January. Likewise, if you have stocks or other investments that are performing well, cashing out too soon could bite you at tax time. Consider putting off those sales until early next year to defer the tax burden or using losses to offset the gains, which we'll discuss next.

5. Harvest losses. On the other side of capital gains, loss harvesting can be a very effective strategy for reducing your taxable income. If certain stocks in your portfolio have lost value, selling them now can create a loss that can offset gains in other investments. If you have a total net loss in your investments, up to $3,000 of that loss can be used to reduce your ordinary income; and any loss over that amount can be carried over to future years.

6. Start a new retirement savings plan (or contribute to an existing one). If you have a 401(k), IRA or other retirement savings plan, consider putting in some extra money toward the end of this year to save on taxes next year. If you don't have a retirement savings plan yet, the end of the year is a great time to start one, because anything you add to it can reduce your tax burden and set you up for long-term financial success. Talk with your financial advisor about starting an IRA, SEP, SIMPLE or another type of savings plan for which you might be eligible. It's also a great time to review your beneficiary designations and make sure they're in alignment with your estate planning goals. We're here to help you with aligning your beneficiary designations to your estate plan.

7. Defer income. Another common strategy for saving at tax time is to defer some of your year-end income to next year. If you've got a bonus coming, ask your employer about holding off until January to pay it. If you're self-employed, and you're finishing a big year-end project, consider invoicing it at the end of December so it gets paid in January. Your financial advisor may have other suggestions for how to defer income strategically. This is especially important if your income for 2016 brings you close to a tax threshold like the alternative minimum tax (AMT) or into a higher tax bracket.

8. Accelerate expenses. Conversely to deferring income, you can reduce your tax burden by accelerating some tax-deductible expenses at the end of the year. If you know you need a new piece of equipment for your business in 2017, consider buying it near the end of 2016 so you can deduct it this year instead of next. If you have a child in college, pre-paying spring tuition can also benefit you at tax time. Also, remember that if you have a Flexible Spending Account (FSA) for out-of-pocket medical expenses, any money left in that account at the end of 2016 becomes taxable. If you've been planning on having a procedure, updating your prescription lenses or getting some dental work done, now is the time to get on your doctor or dentist's calendar!

9. Boost your charitable donations. Year-end charitable giving is a well-recognized method for reducing one's tax burden. If you're looking for more deductions, consider making a special holiday donation to one or more non-profit charities of your choice. Remember though, you must itemize your deductions to obtain a tax benefit from charitable giving. If you're not sure about itemizing your return, talk to your tax advisor as soon as possible.

10. Strategic giving to family or friends. Did you know that you can gift up to $14,000 per year to as many people as you like without paying gift tax? If you give more than that, you'll have to file a gift tax return. As long as your lifetime gifting doesn't exceed $5.45 million in total ($10.9 million for a married couple), then you won't owe any gift tax. Your financial and tax advisor can help you identify which of your assets can be strategically gifted to family or friends in such a way that results in effective wealth-building for all with a minimum tax impact.

Of course, every person's financial situation is unique, and not all these year-end tax strategies will apply to everyone. Likewise, certain tax-saving strategies can backfire if they are overdone or overused. That's why you should always work with a trusted financial advisor to develop a year-end tax plan that's customized to your situation and designed to yield the best savings overall.

Tax preparation happens every year. If it's been more than two years since we talked about your will or trust, call us to make an appointment. We're ready to help.