8 Year-End Financial Moves

TO BOOST YOUR TAX RETURN

The end of the year is quickly approaching, and for many, that means it's time to make New Year's resolutions and enjoy the holidays with family and loved ones. However, the year-end is also an important time to start preparing for tax season. There are several steps that you can take right now to boost your tax return in April — regardless of your current situation.

If You're Not Yet Retired

If you haven't yet retired but plan on doing so in the near-future, there are four steps you may be able to take before January to help maximize your tax return.

400 North Ponce de Leon Boulevard
Saint Augustine, Florida 32084

Phone: (888) 876-7605
www.firstcoastadvisors.com

1. Plan Your Itemized Deductions

Do you plan on retiring next year, or even experiencing a drop in your income? If so, then your deductions will probably hold more value this year than they will next year. As such, you may want to consider paying your January mortgage, first-quarter estimated taxes, and other deductible expenses at the end of this year instead.

If you itemize your tax deductions each year rather than taking the standard deduction, now is also a good time to start planning your itemized deductions accordingly. There are many ways to go about maximizing your tax deductions, with donating to charity being among the most effective. From clothes and books to a used car or even cash donations, be sure to keep track of everything you donate and its value. If you donate money to a charity, you should also receive a statement from them at the beginning of next year, which will come in handy when it's time to do your taxes.

If you had out-of-pocket medical or dental expenses throughout the year, you may also be able to deduct these come tax time. The same goes for:

- Interest expenses
- Home mortgage points
- Business expenses

2. Consider a Roth IRA Conversion

If you're at least 59.5 years of age and you're worried that your tax rate is going to rise in the future, now is a great time to consider converting your 401(k) or Traditional IRA to a Roth IRA, which would allow you to enjoy tax-free and penalty-free withdrawal as early as five years after you convert your account. This is an excellent way to save money on your taxes; just keep in mind that if you choose to convert, you will be responsible for pre-tax contributions from your previous retirement account for that first year.

3. Max Out Your 401(k) Contributions

Want to maximize your deductions come tax season? If so, then now is a great time to check your retirement fund statements and make sure you've contributed your maximum amounts for the year. This is especially true if you have a 401(k) retirement fund, but it applies to all funds with annual maximum contributions. Keep in mind that if you have a 401(k), your maximum yearly contribution is $17,500. If you have an IRA, the maximum yearly contribution is $5,500 (unless you're over the age of 50, in which case, you can contribute an additional $1,000).

If you plan on maximizing your retirement contributions, be sure that you do so before the end of the year. If you don't have the extra money to put into your retirement fund at this point in time, consider using your year-end bonus to maximize those contributions. Many employers are looking to maximize their year-end expenses as well (see #6 below), and may be willing to pay out your bonus a little earlier in the month.

4. Adjust Your Tax Withholding

If you work for an employer that deducts your taxes from each paycheck on your behalf, then you may also want to consider taking the time to adjust your tax withholding status before the end of the year. This is an especially good idea if you went through any major life changes this past year, such as:

- A divorce
- Getting married
- Having children

Often times, these life changes affect your tax status, and so your paperwork with your employer's human resources department should be updated to reflect these changes. Even if nothing has changed in your life in the past year, you may want to update your withholding status with your employer if you received a very large tax refund last year or ended up owing a lot of money. This is indicative that either too much or not enough money was being withheld from your taxes. If too much was being withheld, you will want to increase your number of exemptions on your W-4 form. If you owed a lot of money to the IRS, on the other hand, you'll want to reduce your exemptions, which means more taxes will be taken out of your paychecks.

If You're Already Retired

What if you've already retired? There are steps you can take to maximize your tax refund too, or at the very least, minimize the amount you owe.

5. Take Your Required Minimum Distributions

If you're age 70.5 or older, understand that you're now required by law to take your minimum distributions from your IRA by April 1. If you fail to do so, you could be penalized with a 50% tax on the money that should have been withdrawn, which can add up very quickly. If you're not sure how much you should be taking out this year, the best thing you can do is to meet with your financial planner. The last thing you want is to be penalized for such an easily avoidable mistake and losing out on some of your retirement funds as a result.

For Any Situation

Whether you're already retired, plan on retiring soon, or haven't even begun to think about retirement yet, these next three financial planning tips can still help you out come tax time.

6. Defer Income & Accelerate Expenses

You'll be taxed on the income earned this year, so one way to reduce your tax burden next year is to defer your income. For example, if you run a business where you're able to bill clients, you might consider holding off on collecting payment for some goods and services until the first of next year. This way, you won't be responsible for paying taxes on that income until the following year. This is often a great strategy for small business owners, but you'll want to speak with your financial planner to make sure this is the best option for your specific situation.

On a similar note, accelerating expenses can assist in reducing your tax burden for this year. For example, you might consider pre-paying next year's property taxes on your home, or paying ahead on other expenses, if doing so will help to ease the burden on your tax bill this year.

7. Check Your Beneficiaries

When you set up your retirement fund or life insurance policy, you probably listed at least one beneficiary. The end of the year is a great time to review the beneficiaries on your accounts and make sure they're still in line with your needs. All too often, people forget to change their beneficiaries when they get divorced or when a loved one passes away. Therefore, you'll want to be sure that you update any account beneficiaries as needed so that you have one less thing to worry about in the following year.

8. Review Your Portfolio with Your Financial Planner

The end of the year is a great time to meet with your financial planner if you haven't done so already. This will provide you with an opportunity to review your finances from the past year and receive useful advice going into the next year.

Your taxes shouldn't influence your investing strategy, but there are some specific situations in which it might make sense to sell off certain investments or make new investments before the end of the year. Your financial planner can make these and other recommendations that will help you out come tax time. Everybody's situation is unique. Whether you're already retired or are still planning for retirement, let the experts at First Coast Wealth Advisors help — call us at (888) 876-7605 to schedule your financial check-up today.

Call First Coast Wealth Advisors Today at (888) 876-7605 to learn more about our Financial Planning services.

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