Your Annual Financial To-Do List

Things you can do before & for 2017.

Provided by Chris Wayne

What financial, business, or life priorities do you need to address for 2017? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives. Some year-end financial moves may help you pursue those goals as well.

What can you do to lower your 2017 taxes? Before the year fades away, you have plenty of options. Here are a few that may prove convenient:

***Make a charitable gift before New Year's Day.** You can claim the deduction on your 2016 return, provided you itemize your 2016 deductions with Schedule A. The paper trail is important here.[1]

If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity in December, but only end up gifting $500 before 2016 ends, you can only deduct $500.[1]

Are you gifting appreciated securities? If you have owned them for more than a year, you will be in line to take a deduction for 100% of their fair market value, and avoid capital gains tax that would have resulted from simply selling the investment and then donating the proceeds. (Of course, if your investment is a loser, it might be better to sell it and donate the money, so you can claim a loss on the sale and deduct a charitable contribution equal to the proceeds.)[2]

Does the value of your gift exceed $250? It may, and if you gift that amount or larger to a qualified charitable organization, you will need a receipt or a detailed verification form from the charity. You also have to file Form 8283 when your total deduction for non-cash contributions or property exceeds $500 in a year.[1,2]

If you aren't sure if an organization is eligible to receive charitable gifts, check it out at irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

***Contribute more to your retirement plan.** If you haven't turned 70½ this year and you participate in a traditional (i.e., non-Roth) qualified retirement plan or have a traditional IRA, you can cut your 2016 taxable income through a contribution. Should you be in the 35% federal tax bracket, you can save $1,925 in taxes as a byproduct of a $5,500 regular IRA contribution. Your TY 2016 contribution to a Roth or traditional IRA may be made as late as April 15, 2017. There is no merit in waiting, however, since delaying a contribution only delays tax-advantaged compounding of those dollars.[3,4]

If you are self-employed and don't have a solo 401(k) or something similar, look into whether you can still establish and fund such a plan before the end of the year. For TY 2016, you can contribute up to $18,000 to any kind of 401(k), 403(b), or 457 plan, with a $6,000 catch-up contribution allowed if you are age 50 or older.[5]

***See if you can take a home office deduction.** If your income is high and you find yourself in one of the upper tax brackets, look into this. You may be able to legitimately write off expenses linked to the portion of your home used to exclusively conduct your business. (The percentage of costs you may deduct depends on the percentage of the square footage of your residence you devote to your business activities.) If you qualify for this tax break, part of your rent, insurance, utilities, and repairs may be deductible.[6]

***Open an HSA.** If you are enrolled in a high-deductible health plan, you may set up and fund a Health Savings Account in 2017. You can make fully tax-deductible HSA contributions of up to $3,400 (singles) or $6,750 (families); catch-up contributions of up to $1,000 are permitted for those 55 or older who aren't yet enrolled in Medicare. Moreover, HSA assets grow untaxed and withdrawals from these accounts are tax-free if used to pay for qualified health care expenses. HSAs are sometimes referred to as "backdoor IRAs," because once you reach age 65, you may use withdrawals out of them for any purpose; although, withdrawals will be taxed if they aren't used to pay for qualified medical expenses.[7]

***Practice tax-loss harvesting.** You could sell underperforming stocks in your portfolio – enough to rack up at least $3,000 in capital losses. In fact, you can use this tactic to offset all of your total capital gains for a given tax year. Losses that exceed the $3,000 yearly limit may be rolled over into 2017 (and future tax years) to offset ordinary income or capital gains again.[4]

Are there other moves that you should consider? Here are some additional ideas with merit.

***Pay attention to asset location.** Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pre-tax accounts and your most tax-efficient securities should be held in taxable accounts.

***Can you contribute the maximum to your IRA on January 1, 2017?** The sooner you make your contribution, the earlier those assets have the potential to earn interest. In 2017 the contribution limit for a Roth or traditional IRA remains at $5,500 ($6,500 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA, though: singles and heads of household with MAGI above $133,000 and joint filers with MAGI above $196,000 cannot make 2017 Roth contributions.[5]

What are the income limits on deducting traditional IRA contributions? If you participate in a workplace retirement plan, the 2017 MAGI phase-out ranges are $62,000-$72,000 for singles and heads of households, $99,000-$119,000 for joint filers when the spouse making IRA contributions is covered by a workplace retirement plan, and $186,000-$196,000 for an IRA contributor not covered by a workplace retirement plan, but married to someone who is.[5]

***Should you go Roth before 2017 gets here**? You might be considering that. If you are a high earner, you should know that MAGI phase-out limits affect Roth IRA contributions. For 2016, phase-outs kick in at $184,000 for joint filers, and $117,000 for single filers (those thresholds move north by $2,000 and $1,000, respectively, in 2017). Should your MAGI prevent you from contributing to a Roth IRA at all, you still have the chance to contribute to a traditional IRA in 2016 and then go Roth.[5]

Incidentally, a footnote: distributions from Roth IRAs, traditional IRAs, and qualified retirement plans such as 401(k)s are not subject to the 3.8% Medicare surtax affecting single/joint filers with AGIs over $200,000/$250,000. If your AGI surpasses these MAGI thresholds, then dividends, royalties, the taxable part of non-qualified annuity income, taxable interest, passive income (such as partnership and rental income), and net capital gains from the sale of real estate and investments are subject to that surtax.[8]

Consult a tax or financial professional before you make any IRA moves to see how they may affect your overall financial picture. If you have a large traditional IRA, the projected tax resulting from a Roth conversion may make you think twice.

What else should you consider as 2017 approaches? There are some other things to note...

***Review your withholding status.** Should it be adjusted due to any of the following factors?

>> You tend to pay a great deal of income tax each year.
>> You tend to get a big federal tax refund each year.
>> You recently married or divorced.
>> A family member recently passed away.
>> You have a new job and you are earning much more than you previously did.
>> You started a business venture or became self-employed.

***If you are retired and older than 70½, remember your RMD.** Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs and 401(k), 403(b), and profit-sharing plans by December 31. The IRS penalty for failing to take an RMD equals 50% of the RMD amount that is not withdrawn.[9]

If you turned 70½ in 2016, you can postpone your initial RMD from an account until April 1, 2017. The downside of that is that you will have to take two RMDs next year, both taxable events – you will have to make your 2016 tax year withdrawal by April 1, 2017 and your 2017 tax year withdrawal by December 31, 2017.[9]

Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your adjusted gross income, plus any non-taxable interest income you earn, plus 50% of your Social Security income surpasses a certain level, then some Social Security benefits become taxable. Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers.[10]

***Consider the tax impact of 2016 transactions.** Did you sell real property this year? Did you start a business? Have you exercised a stock option? Could any large commissions or bonuses come your way before January? Did you sell an investment held outside of a tax-deferred account? Any of this might significantly affect your 2016 taxes.

***Would it be worth making a 13th mortgage payment this year?** If your house is underwater, it makes no sense – and you could argue that those dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January mortgage payment in December. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

***Are you marrying in 2017?** If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2017, you will need a new Social Security card. Additionally, the two of you no doubt have individual retirement saving and investment strategies. Will they need to be revised or adjusted with marriage?

***Are you coming home from active duty?** If so, go ahead and check the status of your credit, and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure your employee health insurance is still there, and revoke any power of attorney you may have granted to another person.

Talk with a qualified financial or tax professional today. Vow to focus on being healthy and wealthy in the New Year.

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