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Don't Miss These 6 Year-End Financial Planning Opportunities

Are your finances ready for the end of the year? December brings many deadlines and lists; there are gifts to buy, holidays to plan, and vacations to organize. While financial planning should occur year-round, it often becomes top of mind as the year draws to a close. Even though the holiday season is a busy time, it's important to take care of financial matters now to save you time and money in the long run. Addressing the following 6 opportunities can help you start 2020 on the right financial foot.

1. Check Your Tax Withholding

In order to avoid a large tax bill or even a penalty for underpaying, you may need to review your tax withholding for the year. This is especially relevant since the IRS changed the tax withholding tables in 2018. Though withholding issues can affect anyone, they are most likely to affect those with less predictable incomes, such as business owners or salespeople who work on commission. If this applies to you, the income estimates you made earlier in the year may not be accurate. In the last months of the year, you can use the IRS's withholding estimator to help ensure that no major tax issues come up in April.

2. Consider Year End Gifting

Gifting allows you to give up to $15,000 per person, per year to an individual (usually a child or grandchild) without any tax consequences. For larger estates, gifting can minimize the amount of the estate subject to estate taxes. Though the estate tax now applies only to assets above $11.4 million, the limit is set to revert to $5 million in 2026 unless Congress extends it. The gifting limit also applies to contributions made to 529 plans.

3. Plan Charitable Contributions

The 2017 Tax Cuts and Jobs Act has changed how many people approach their charitable gifting. The increased standard deduction means fewer people benefit from itemizing deductions. With these changes have come some new strategies for handling charitable gifting. According to a recent study by Psychological Science, the happiness of giving a gift actually outlasts the happiness of receiving gifts. If you're looking to donate to charity this year, you'll need to make your donation by December 31st in order to receive a donation receipt for this year.

4. Take Your Required Minimum Distribution

If you're over 70 ½ and have a traditional IRA, the IRS requires that you take a distribution of a certain amount each year, also known as the Required Minimum Distribution (RMD). The amount of the RMD will vary and is based on multiple factors, including your age and the value of your IRA at the end of the previous year. If you don't take your RMD by year end, you'll end up with a penalty. If you don't need the funds, consider making a Qualified Charitable Distribution (QCD). A QCD, also known as a charitable IRA rollover, turns your RMD into a charitable gift. You won't pay taxes on a QCD, but you also can't get a tax deduction.

5. Consider Refinancing Loans

The trade war and the Federal Reserve's rate cuts mean you may be able to receive a lower interest rate if you choose to refinance. If you're considering refinancing your mortgage or student loans, doing so before the end of the year may help you get a lower interest rate, which can save you money. But, there are a few things to consider to make sure you’re actually saving money. Before refinancing a mortgage, consider how close you are to paying off the loan. The ratio of principal to interest in the monthly payment of a mortgage varies. Over time, the percentage of the monthly payment that goes towards interest will decrease and the percentage that goes towards the principal will increase. This means that refinancing a mortgage rarely makes sense if you’ve already repaid the majority of the mortgage. For student loans, refinancing may mean a shorter loan period and losing options that come with federal loans, such as loan deferment.

6. Use Your Flexible Spending Account (FSA)

It’s important to review how much you have remaining in your FSA, since some or all of the funds in an employer sponsored FSA may not roll over to the next year. For a medical FSA, at the start of the year, you make an assumption about how much you’ll need for the year. Many people choose to overestimate, which may leave them with extra funds in the account at the end of the year. It depends on the plan, but most plans only allow you to roll over $500. If you have more than $500, you may want to buy any medicine or make any medical appointments prior to the end of the year. Dependent care FSAs typically don’t allow any rollover, though this is often less of an issue, since you can often plan childcare costs more accurately ahead of time. You can also save yourself some time, and potentially some money, by noting your current year’s FSA surplus or deficit and taking that into account for the next year.

The end of the year is a busy time. Prioritize your financial needs to help save money, avoid penalties, and start off the new year with your finances in the best possible shape. For further advice on year-end financial planning opportunities, contact us today.

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