Year-End Financial Planning Tips

By Patrick H. Yanke

With 2017 quickly winding down, take time to sit with a financial professional and review. Here are some conversation-starters.

Asset Allocation

The impressive moves of the financial markets over recent years may have changed the risk exposure in portfolios. If it's time to reallocate funds, consider the tax implications of changes made in taxable accounts.

Harvest Tax Losses

Given the strength and breadth of the current bull market, portfolios may have more winners than losers. All capital losses are available to offset capital gains; however, the IRS limits the amount of capital losses which may be deducted from income to just $3,000 in any year. The good news is that losses not used this year may be carried forward into future years.

If losses are taken in securities intended to be held for the long-term, be aware of wash-sale rules. A tax loss will be disallowed if the security is repurchased within 31 days either side of the sale.

Tax-Deferred Accounts

If contributing to business retirement plans (such as a 401K), be sure to defer in each pay period to maximize employer matching. Any deposits intended for 2017 should occur before the end of the year. IRA contributions are due by the tax-filing deadline.

If an IRA or 401K holder reached age 70 1/2 during 2017, they have a choice whether to take the first Required Minimum Distribution (RMD) this year or next. The first RMD may be delayed until April 1, 2018—but then it will add to 2018's income. Consider whether 2017 or 2018 is better for this additional income. All subsequent RMDs will be taken in the calendar year due—so if the first one is delayed until next year, there will be two taken in 2018.

Determine if there is an unspent balance in a flexible spending account (FSA) plan. Many plans have a "use it or lose it" feature. If unspent funds will be lost at the end of the year, consider getting that physical (which is never the highest priority) or a new pair of glasses.

Consider a Roth IRA conversion. The benefits include future tax-free withdrawals (if the Roth IRA has been held for at least five years and the owner is at least 59 1/2) and the elimination of RMDs during the account holder's lifetime. The downside is that taxes are due on the converted amount in the year of conversion—and taxes may not be withheld in the conversion process.

Manage Income

If 2017 has been a high-earnings year, consider deferring compensation to future years, as able. Deferring a bonus (if allowed) and contributing to a deferred compensation plan (if eligible) are strategies available to employees. Capital gains may be controlled by choosing a favorable sale date. Consider the effect of stock options, especially regarding the Alternative Minimum Tax (AMT).

Business owners may be to control income by accelerating the payment of expenses, putting new assets into service, or providing customers with favorable payment terms.

Gifts and Charitable Donations

Most people limit annual gift-giving to the $14,000 excludable from gift tax consideration. Consider the advantages of front-loading 529 plans or paying an unlimited amount for qualified medical expenses and tuition directly to providers and institutions. If a medical expense is paid for someone considered a dependent, it may also qualify for an income tax deduction.

IRA holders at least 70 ½ years old may take advantage of a tax provision made permanent at the end of 2015—gifting up to $100,000 directly from the IRA annually. This Qualified Charitable Distribution (QCD) also counts toward the annual RMD. Any donations meant for 2017 must be made before the end of the year—regardless of source account.

Outside of the IRA, a significant amount may be put in charitable accounts which may operate similar to foundations. The tax benefits help in the year of the donation and the charitable deduction may be carried forward to future years.

Review Insurance Coverages

Each year when the time changes, it's good to review life, health, home, and auto policies. As life evolves and property values adjust, it's important to ensure policies reflect changes in risks and assets.

Look Ahead to the New Year

What changes are anticipated in the coming year? Is employment uncertain or are there large capital purchases on the horizon? Make sure the emergency fund is healthy. Emergency funds are beneficial for unexpected life events such as changing jobs or dealing with medical expenses. Take steps to improve the credit rating. Access to credit is important for purchases requiring additional financing or for meeting short-term needs beyond the availability of emergency funds.

These ideas here are meant to help start important conversations but every heading could be its own article. Please consult a qualified professional to discuss tax and legal matters.

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