Consumer Tip October 2017: Year-End Tax Planning Tips

While April 15 seems far away, there are several things you can start thinking about now to prepare for Tax Day 2018. Smart tax planning through the end of the year can help reduce the taxes you'll owe.

Listed below are six year-end tax planning tips that experts recommend you consider to increase tax breaks on your upcoming tax return, saving you money that would otherwise go to the IRS.

Give Back to the Community

While you don't need a reason to engage in charitable giving, a benefit is that you receive a tax write-off for donations. If you donate clothes, a used car or other things, you are required to itemize your deductions. However, if you send cash by December 31, all you need is to hang on to your canceled check or credit card receipt as proof of your donation. Many organizations also provide tax receipts.

Max Out Retirement Plan Contributions

There is no better investment than tax-deferred retirement accounts. They can grow to a substantial sum because they compound over time free of taxes. Company-sponsored 401(k) plans are an especially good deal if your employer matches contributions. Try to increase your 401(k) contribution so that you are putting in the maximum amount of money allowed or at least ensure that you are maximizing the amount matched by employer contributions. This is basically free money. By maximizing your retirement plan contributions as much as possible by year-end, you not only help get better prepared for retirement but you will help reduce your tax bill.

Consider Converting to a Roth IRA

An IRA is typically funded with pre-tax dollars and grows tax-deferred. When the account holder withdraws money from the account, those withdrawals are fully taxed as regular income. However, a Roth IRA is funded with after-tax dollars so withdrawals are tax free. If you have many years left before retirement and think your income tax bracket will be the same or higher when you retire than it is today, then converting to a Roth IRA makes sense.

Contribute to 529 College Savings Plans

You receive tax deductions for contributing to 529 College Savings Plans—be it for your children, grandchildren or others. Thirty-three states offer either a full or partial tax deduction or credit for 529 plan contributions. And your family members will very much appreciate it as the cost of college increases ever year.

Make Annual Exclusion Gifts

You can make annual exclusion gifts up to $14,000 per spouse, per person to reduce the value of your estate, hence reducing the taxes you pay. This is also a way to engage in multi-generational gifting, something else your family members will appreciate.

Realize Losses to Offset Gains

Consider selling investments that are at a loss. This strategy is called "loss harvesting," which means you sell investments—such as stocks and mutual funds—to realize losses and generate a tax deduction. Those losses will offset any taxable gains you have realized during the year dollar for dollar. If your losses happen to be more than your gains, you can use up to $3,000 of excess loss to wipe out other income.

Although Tax Day is half a year away, there are things you can—and should—consider doing in the last three months of 2017 to help ensure you have as many tax breaks as possible come April 2018. The end of the year is also a good time to gather your financial information and meet with your financial advisor to see if there are other things you can start doing that will help come tax time.

This information is provided with the understanding that the association is not engaged in rendering specific legal, accounting, or other professional services. If specific expert assistance is required, the services of a competent, professional person should be sought.

Contact: Pennsylvania Association of Community Bankers 717.231.7447 or www.pacb.org