Plan Now, Save Later

Mid-Year Tax Planning Guide

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We're half way through the year. It's the perfect time to take a few minutes to review your taxes and do some smart mid-year tax planning. People often wait until December to start thinking about their tax bill, but implementing changes now may have a greater effect on your overall tax bill, and provide the luxury of additional time to consider and plan for changes.

- **Finish your 2015 tax return** – Has your 2015 tax return been filed? If you received an extension back in April, you have until October 17, 2016 to get it filed. But why wait if you have all of the information to complete your return now? In fact, trying to finish it up in a rush, whether it's the April 15th deadline or the October 15th deadline, may very well result in errors and the potential of paying too much tax by missing valuable deductions and credits.

- **Adjust your withholding** – Now that you have filed your 2015 tax return, did you receive a large refund or did you have to write a large check to the U.S. Treasury? Are your income and tax conditions about the same in 2016 as they were in 2015? If so, you may want to review your withholding and adjust it either down to reduce your refund, or up to prevent having to write a large check next year, particularly if the payment included an underpayment penalty. Usually, your goal is to have just enough tax withheld – not too much and not too little.

- **Evaluate your estimated taxes** – Estimated tax payments are required if you earn income not subject to withholding. Estimated tax payments ensure that you pay your tax as you earn your income. This is a great time to review the 2016 estimated tax payments you have already made to determine if your payments are still on track and adjust your remaining quarterly payments, if necessary.

  If you are taking distributions from your IRA, whether required minimum distributions or to supplement your retirement income, you may want to consider paying some or all of your tax through federal and state tax withholding from the distribution. With careful calculation and planning, you can pay federal and state tax later in the year via withholding and reduce or supplement your quarterly estimated tax payments.

- **Make charitable donations** – Your favorite non-profit is happy to take your money or unwanted household items. Many charities struggle through the summer, so why not make your donation now rather than waiting until the end of the year? But you can only write off donations to a charitable organization if you itemize deductions. Send cash donations to your favorite charity by December 31 and hang on to your canceled check or credit card receipt as proof of your donation. If you contribute $250 or more, you will also need an acknowledgement from the charity.

A planning opportunity, if you are thinking of making a large gift to a charity, is to give appreciated stock or mutual fund shares that you have owned for more than one year. Doing so boosts the savings on your tax return. Your charitable-contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for them, and you never have to pay tax on the unrealized gain.

If your favorite charity cannot accept a donation of appreciated securities, consider opening a donor-advised fund. The fund administrator will sell the securities for you and add the proceeds to your account. You can deduct the value of the securities on your 2016 tax return and decide later where you want to donate the money.

If you are over age 70 ½ you can transfer up to $100,000 from your Individual Retirement Account (IRA) to a public charity without triggering federal income tax and without including the distribution in your adjusted gross income. An IRA charitable rollover may fulfill part or all of your required minimum distribution (RMD) for the year. While this provision has been available on a year-to-year basis in the past, the Protecting Americans from Tax Hikes (PATH) Act of 2015 signed into law on December 18, 2015 made the provision permanent, allowing for annual IRA tax planning while benefiting your favorite charity.

- **Contribute to your retirement plan** – The sooner you start contributing to a retirement plan the better. If your employer offers a 401(k) plan and you haven't taken advantage of it, check on the enrollment requirements. If your employer matches your contributions to your 401(k) plan, increase your contributions to at least the maximum your employer will match.

  Consider contributing to a traditional IRA or a Roth. If you are already contributing to any of these plans, consider increasing the amount of your contributions up to the maximum limits. If you currently have a traditional IRA and you expect 2016 income to be significantly less than future years, or you have a net operating loss in 2016, you may want to consider rolling at least part of your traditional IRA to a Roth.

  Worried about not being able to pay the tax bill? Don't be. You have the opportunity to change your mind after you convert to a Roth. You can undo the conversion up to October 15, 2017 and turn your Roth back into a regular IRA.

- **Evaluate your investments** – This is a good time to sit down with your investment adviser and review your investments. Allowing taxes to dictate your investment strategy is rarely a good idea. But if you are already considering selling securities or other assets, cutting them loose by year-end could save you money. Are you paying the 3.8% net investment tax which was created to help fund health care reform? Are there capital gains or losses that can be recognized to net your gains as close to zero as possible? Evaluate your investments on an after-tax basis to ensure you are maximizing your investments and income while paying the lowest tax possible.

- **Get organized** – Your tax organization system does not need to be elaborate. An accordion file works well for many people. Or, it can be as elaborate as scanning and saving your documents to files on your computer and tracking your income and expenses in a financial program such as Quicken. The key is to pick a system that you are comfortable maintaining and allows you to easily locate receipts and other documentation. Once you find a system that works for you, stick with it. At the end of the year, you will need to total up all of the different types of expenses such as medical, charitable, business, etc. If your receipts are already organized, it will make your job much faster and easier when you sit down to organize your information for your tax return.

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