Planning for the end (of 2017)

Tax reform waiting game

By Melinda Nelson, CPA

Remember back in the early months of 2017 when tax reform looked likely? Well, it's mid-year and nothing has been passed. While the future looks hazy, it's still smart to plan for your 2017 tax needs. When you filed your 2016 return, your tax professional probably mentioned the uncertainty that makes planning challenging. However, there are strategies that can help you save tax no matter what the future holds.

Organize your records

Those tax deductions you want to claim, but don't have records for? Now's the time to get your documentation, paperwork, receipts, expenses, etc. organized. You are allowed to claim deductions for a number of things including charitable donations, education expenses, unreimbursed business expenses and mortgage interest. The only catch is that you have to keep accurate records to be able to prove the deduction. In addition, documentation protects you if you are ever audited.

The kind of documentation you'll need depends on the type of deductions you're claiming. It's especially important to have good documentation for your charitable deductions. If you're claiming a tax deduction for money you donated to your church, you'll need a cancelled check or a receipt from the organization that specifies the amount of the donation and the date it occurred. If you travel for medical appointments or drive for a charitable organization, be sure to keep a good mileage log. If you deduct travel expenses for your job, make sure you save gas and hotel receipts or keep your mileage written in a log book.

Life changes

An important part of tax planning includes understanding how changes to your personal life affect your tax situation. If life has thrown you a curve in 2017, or if a planned change is coming, here are things to consider this year:

- **Getting married or divorced.** Your filing status is based on your marital status. With a change in filing status will come a new tax bracket and potentially a new tax rate. Look at changing your W-4 to reflect the needed increase or decrease in withholding. Estimated tax payments may also need to be adjusted.

- **Retiring.** Review your estimated income for 2017. Will it be lower than previous years? Will you replace your wages with a pension or Social Security? If your income is substantially lower, tax deductions may be less beneficial. If your 2017 income will remain similar to the prior year, you may need to begin making estimated tax payments as tax withholding will end with your payroll checks.

  Is now the optimal time to begin claiming your Social Security benefits? Does it make sense to wait? Pushing off claiming Social Security can increase your benefits over your lifetime and your spouse's.

- **Moving.** Are you moving to a new state? Review how your new state of residency taxes your income. All states have differences in how income is taxed and what deductions are allowed.

Are you planning on selling or buying a new home with your move? Looking for a new job? You may have additional tax deductions.

- **New job.** With every new job comes new changes. Be sure you take advantage of new employer benefits including 401(K) employer matching, pre-tax flexible spending accounts or employer reimbursement plans.

  Unless your prior employer has a stand-out retirement plan, consider rolling your retirement account to your new employer plan or out to an IRA account. It's easier to keep track of your retirement plan accounts in one place.

- **A child arrives.** Child care credits and a dependency exemption may lower your 2017 taxes. Check if your employer offers a dependent care benefit program to pay your childcare with pre-tax dollars.

Maximize your retirement contributions

Did you owe more tax than you expected for 2016? Contributions to a retirement plan can affect your tax liability by lowering your taxable income. If you have a retirement plan at work and your employer offers a matching plan contribution, be sure to contribute enough to get the entire employer match. It's free money. If you can, add the maximum amount possible to your retirement account. The 2017 contribution limit for 401(k), 403(b) and most 457 plans is $18,000. If you are 50 or over, you can contribute an additional $6,000.

An individual retirement account (IRA) is always an option to save more for the future. If your spouse doesn't work or has no retirement plan at work, look to see if a deductible IRA contribution is available. If you are covered by an employer retirement plan, it may impact your ability to deduct an IRA contribution; however, a non-deductible contribution to a traditional IRA account is always an option.

Take some time from your vacation planning to review your mid-year tax situation. You'll be happy with the results when tax time rolls around again at year end.

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