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'Money $ense': Year-end tax tips

By Marc Hebert
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AS THE year-end quickly approaches, now is time to take one last look at your income taxes. Planning for the 2021 tax year is particularly difficult as we don't know what, if anything, Congress will do with the tax code. Given this, before implementing any ideas, be sure to consult with your personal tax adviser.

If you feel 2022 might bring lower taxes for you, then deferring income to the next year is perhaps a good option. If you use the cash basis method of accounting and own a business, you might be able to delay a bonus, for example. If the reverse is true and you feel you might be in a higher tax bracket for 2022, then you will want to do the opposite and bring the income you have control over into 2021.

You can do the same planning with your deductions. By choosing to make payments in one year versus another, you have some control over these. The key is to review two years at a time. One area to review are deductible charitable contributions. The deduction is generally limited to a certain percentage of your adjusted gross income. Your deduction also depends on the type of property you are giving and the organization you are giving to. For 2021, even taxpayers who don't itemize can deduct $300 ($600 on joint returns) for direct cash gifts to charity.

While retirees had a reprieve from making required minimum distributions (RMDs) for last year, they are back for 2021. Generally, the age they start is 72. RMDs must be taken from your traditional IRAs and employer-sponsored retirement plans by year end. There is a substantial penalty if you don't take these of 50% of the amount you were supposed to take. These rules also apply to inherited retirement accounts. As the penalties are steep, it is worth checking the status of your RMDs.

It is also a good time to review your retirement savings. This includes deductible contributions to traditional IRAs and pre-tax contributions to employer-sponsored retirement plans. As cash flow permits, you might want to save up to the maximum amount allowed. The opportunity to make contributions to employer-sponsored plans usually closes at year end. It might make sense to review your plan's rules just to be sure you have derived the maximum benefit from participation. You have until April 15 to make IRA contributions.

Another potential area of review is your portfolio. Taxes shouldn't be the sole driver of your investment decisions. However, taxes are one consideration. In some years you might have capital gains and losses. It may make sense to sell your losses to offset the gains from sales. If you have losses that are more than the gains, you can use up to $3,000 against your ordinary income and carry the rest forward for future years. If you feel capital gains rates will be higher in the future, you might want to save the capital losses for later years.

Part of the requirement for mutual funds is to distribute any gains they have for the sale of stock or bonds during the year to their shareholders. If the funds are in a taxable brokerage account, you will end up paying the taxes on these even though you probably reinvested the distributions and didn't take the money. Funds often post estimates of their distributions before year- end. It is a good idea to take the potential for distributions into account when reviewing your tax picture.

A quick tax projection could also be helpful. If it seems like you are going to owe money, consider increasing your withholdings. You can do this by submitting a form W-4 to your employer. Increasing your withholding could make sense to help you avoid penalties. The withholding is considered made evenly throughout the year instead of on the day you paid it.

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