PARK 10

FINANCIAL, LLC

Year-End Strategies to Cut Your Taxes

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2016 has been an interesting year to say the least, as we have witnessed the unusual U.S. presidential election process, Brexit, and numerous other events that shook the stock market up or down. But 2016 is turning into that gray-headed old man that must leave the stage for the arrival of that fresh new baby of 2017. However, in these last days of 2016 there are a number of actions that can be taken to lessen your taxes if you act before the year meets its end.

Take Your Savings to the Max

You have until December 31st to step up your contributions to a 401(k) or other workplace plan. The most you contribute to your 401(k) plan is $18,000. If you turn 50 during 2016, you can toss in an extra $6,000 in what is considered "catch-up" contributions for a grand total of $24,000.

The contribution limits are not as generous in a traditional IRA, with the limit being $5,500 or $6,500 for those 50 and older. Yes, you can wait until early April of 2017 to contribute to your IRA but you will benefit most from the buildup of tax-deferral if you invest before 2016 ends. The same is true for the self-employed, who are using a SEP IRA or a Solo 401(k) plan. Their maximums are $53,000 in 2016 and those over 50 can add in an extra $6,000 for a total of $59,000.

The limits on contributions to a Roth IRA are the same as those for a traditional IRA, but the money going into a Roth IRA are after tax dollars, so you don't get any tax break in the year that you make contributions.

How Much Can You Sock Away?

2016 Maximum Contributions

	under age 50	50 & over
Traditional IRA	**$5,500**	**$6,500**
Roth IRA*	**$5,500**	**$6,500**
SEP IRA	**$53,000**	**$53,000**
Solo 401(k)	**$53,000**	**$59,000**
401 (k) or workplace plan	**$18,000**	**$24,000**

***Contributions are made with after-tax dollars**
Source: www.IRS.gov

Defer and/or Accelerate

If there is a good chance that your tax bracket is going to be the same or lower next year, consider deferring your income into 2017. Some are already thinking that the Trump presidency will make good on its promise of lower taxes.

Congressional tax cuts before 2017? This question can only be answered with a maybe at best. If the decision to cut taxes passes that could lower them, you may regret not deferring some of your 2016 income into 2017. If you run a business, then the reasonable thing to do is not bill your clients until late December or early January so that you won't receive that income until 2017.

The opposite is true for business or charitable deductions. You will probably want to make those now before year-end. By speeding up those items a few weeks, you get the benefit of the tax savings in 2016. That's because you get to deduct expenses in the year they were paid. If you charge your charitable gift or business expense to a credit card this year, it will count for 2016, even though you won't actually pay it until 2017. Payments made by check also work this way if you mail them before year end.

For those who are retired or self-employed, if you prepay the balance of your estimated state tax liability this year rather than waiting for the January 17, 2017 deadline, you get a 2016 deduction. Really, paying your property, school and MUD taxes in 2016 will give you deductions this year even though they are not usually due until January.

Get Rid of Losers

If you have stock or mutual funds that are worth less than what you originally paid for them, you can claim a tax loss if you sell them in 2016. If those losses exceed your capital gains for the year, you may deduct up to $3,000 of losses against ordinary income in 2016 and carry over any balance to offset gains in years to come. However, don't forget about the IRS's "wash sale" rule, which will not allow for the deduction of the loss if you sell a stock or fund and then repurchase it within a short time. This applies from 30 days before the sell to 30 days after the sell.

Donate

Large long-term gains in a stock or mutual fund in a taxable account can be donated to charity. Consider doing this rather than donating cash to the charity. Doing so lets you deduct the full market value of the shares. But if you sell the shares first and then donate the proceeds your contribution (and thus your tax deduction) will be lowered by the amount of the capital gains tax. That tax ranges from nothing to 20%, depending on your tax bracket.

Don't Buy Mutual Funds Late in the Year

These funds often distribute the capital gains that they have earned for the year in mid-to-late December. These gains are taxable unless the shares are held in a tax-deferred account. If you buy shares for a taxable account just before the distribution, then you will owe taxes on those gains, even though you just bought the shares. Postpone buying shares until after the fund has distributed its gains. The distribution dates are available on the fund company's website. ETFs (exchange traded funds) usually distribute little if any capital gains, so this rule generally won't apply to them.

Donate Again

This suggestion doesn't really save you any taxes this year, but over time it could help lower your federal estate and gift taxes. Under IRS rules, you can give up to $14,000 in non-deductible gifts this year to as many people as you would like. These gifts do not count toward the donor's lifetime exemption from the gift tax. That exemption is $5.45 million per individual this year or almost $11 million for a married couple filing jointly.

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