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It’s Not Too Soon For Taxes. 4 Moves You Can Make Now

Mark Avallone, CONTRIBUTOR
I help people on their path to Financial Freedom. FULL BIO
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With the April 15th tax filing deadline still months away, it may seem early to consider taxes, but when it comes to reducing your tax bill, starting early makes eminent sense. Too often tax planning is delayed until very late in the year or until we complete our tax returns. By then it is often too late to take corrective action.

To help you plan early and effectively, here are four tips to consider.

Determine if you will be itemizing your tax deductions or if you will be using the higher ‘Standard Deduction.’

The recently passed Tax Cut and Jobs Act significantly raised the Standard Deduction to $12,000 for singles and $24,000 for married couples. According to Keat Bhutani, a CPA with Axxis Financial in Maryland, “Many Americans who previously benefited from itemizing deductions on their tax returns will no longer be in that situation.” In other words, the new Standard Deduction is now more likely to result in a lower tax bill versus itemizing deductions such as

mortgage interest. If this is going to be the case, and if you have extra cash in a bank account, consider paying down some of your mortgage or home equity line.
In the past, many Americans were comfortable with “cash-out refinances,” or adding to their home equity lines-of-credit, because the tax deductibility of the interest lowered the overall cost of indebtedness. “If deducting mortgage interest is no longer beneficial for you,” Bhutani explains, “it may be time to re-examine the true cost of your debt.” While pre-paying some mortgage debt doesn’t specifically lower your taxes, it may increase the overall efficiency of your financial plan.

Harvest your tax losses now.

The IRS allows you to deduct up to $3,000 of capital losses each year. While the U.S. is firmly in a bull market, not all stocks are up, and other countries, especially emerging markets, have struggled. So, review your losing positions and carefully consider if it makes sense to exit. If you want to sell, avoid the potential mistake of waiting until year-end when many investors rush to sell their losers. Selling early may help you stay a step ahead of others who are selling and thereby adding downward pressure on the stock price. Of course, there are many factors influencing stock prices, but for stocks that have languished, year-end tax selling can be yet another factor causing price declines.

Estimate capital gain distributions from your mutual funds.

Mutual funds are required to distribute your pro-rata share of any realized trading gains (or losses) whether or not you sold shares in the fund. Therefore, it is important to estimate your share of capital gains that will be distributed to you. Contact your advisor or fund company and try to get an accurate forecast; then look for losses elsewhere in your portfolio that can offset these gains and neutralize the tax impact.

Increase your deferral rate into your company-sponsored retirement plan.

A pre-tax contribution into your company-sponsored retirement plan, such as a 401(k) or 403(b), can be one of the most effective ways to reduce your tax bill. Not funding your plan to the maximum allowed amount will likely result in a higher tax bill. If funding your plan to the IRS limit is too ambitious, a small increase is a move in the right direction. If you want to find a great way to pay the government less money, pay yourself more. Increasing your deferral percentage as soon as possible is especially beneficial if you are not maximizing your employers matching contribution. Alternatively, if your plan offers the ability to make a Roth 401(k) contribution, and this is your preferred route, increasing your contributions still make sense—although the tax benefits will be in future years, not the current year, as Roth contributions are made with after-tax dollars.

Beware of one caveat many investors miss: if your company has a matching contribution against your salary deferrals, don’t “max out” your deferrals or reach the IRS limit of $18,500-per-year too early in the year. The matching contribution is exactly that: a match against each salary deferral not a contribution of a set amount. So for any month that you don’t make a deferral, you miss that opportunity to get your company’s match. For instance, if you meet your maximum contribution limit in September, you miss matching opportunities because you won't be making any deferrals in October, November, and December.

For many Americans, April 15th is a painful day, but if you start early and look carefully you probably can find a few tricks to reduce your tax burden and lessen the pain. Don't put off talking with your trusted tax advisor, and if you don't already have one, now is a good time to seek one out—before the busy tax season hits.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.

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6600 Rockledge Drive, 6th Floor, Bethesda, MD 20817

(301) 468–0100

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