YEAR END TAX & FINANCIAL PLANNING IDEAS

BY MICHAEL MENNINGER, Menninger & Associates

In many cases, individuals make unintended financial mistakes and don't realize until it's too late, or never at all. In this article, I present five financial issues to consider before year end.

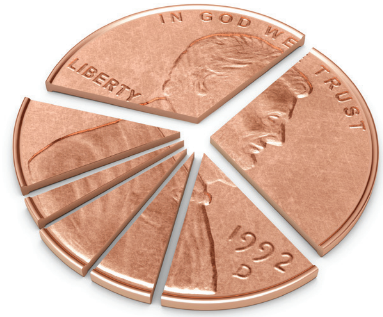
ROTH IRA CONVERSIONS. In my article in the October 2019 edition of *Upper Providence Living*, I detailed the use of Roth IRA conversions as a long-term tax planning opportunity. By utilizing Roth IRA conversions, you will be taking advantage of historically low tax rates and ensuring that your retirement assets will grow and be distributed tax-free in retirement, when your tax rate may be surprisingly higher than today.

MAXIMIZING RETIREMENT PLAN CONTRIBUTIONS. The current limit for contributing to your 401(k) or 403(b) is $19,000, plus an additional $6,000 catchup at age 50 (note that other retirement plans may have different limits). If you wish to maximize your contribution, you should look at your pay stubs and see if you will reach your limit by year end.

FOREGOING MATCHING CONTRIBUTIONS. Most companies will match your 401(k), but I have seen many folks unknowingly lose some of their company match. This may have been because the employee already reached their contribution limit before year end, because the company doesn't match catchup contributions, or because the employee simply isn't contributing enough.

Thus, it is important to fully understand your company's matching program. After all, you don't want to miss out on free money!

TAX LOSS HARVESTING. Many folks have investments in taxable accounts which are taxed on interest, dividends, and capital gains. Tax loss harvesting is a technique investors often use, as they will intentionally sell investments with the intent of capturing a capital loss, which can then be used to offset capital gains, or be simply written off as a loss against income, (limited to $3,000 per year, but additional losses can be carried over to future years, so they are not lost). This is a technique which is often reviewed near the end of the year to capture capital losses to reduce taxes. It is important to note that if you sell an investment for a loss, you cannot buy that investment back within 30 days, or the loss becomes disqualified, known as a "wash sale."



WITHHOLDING ENOUGH TAXES. The government withholds taxes from each paycheck because it wants to collect income throughout the year. However, in the case where a taxpayer has additional taxable income from other sources (rental properties, IRA distributions, capital gains, business income, etc.), they may not be withholding enough for the IRS. In short, the IRS expects you to withhold enough taxes, or else they will assess a penalty AND interest. Thus, individuals and couples should ensure that they are withholding enough for taxes, which isn't a very difficult calculation. If you are not withholding enough, then increase your Federal taxes withheld from your paycheck, or send money to the government in the form of quarterly estimated tax payments. Besides, nobody likes that surprise in April when they have to write a check to the IRS.

We hope these ideas are helpful, and if you have any questions, please feel free to contact us.