Fall Into Tax Planning!

The leaves are changing. The nights are getting longer. There's a cool breeze blowing, and apples are falling off the trees. Everyone knows what that means: It's tax planning time!

Remember, no one can offer you accurate tax advice without a careful review of your finances. If you have questions about filing your taxes, you should speak to a tax planning professional. For most people, though, a little bit of knowledge is enough to get started paying less to Uncle Sam and keeping more in their retirement funds.

While most people don't start thinking about their taxes until February or even April, the best time to make changes is this year. If you haven't thought about your taxes since you paid them in the spring, you're still in good shape. For most tax matters, changes made by Dec. 31 are assumed to be in effect for the whole year. Let's look at four areas of tax planning you should aim to tackle as quickly as you can.

Make any necessary changes to your retirement accounts

If there's anything that is further off than tax planning, its retirement planning. Still, one of the most compelling reasons for making contributions to your retirement is preferential tax treatment. For starters, you should be contributing the maximum to either a Roth or a Traditional IRA.

From there, it gets a little trickier. If your income dropped this year, say, because you or your spouse lost your job or had a significant reduction in hours, you might not get much benefit out of the tax deduction that is presented by a Traditional IRA. You can take this opportunity to switch a portion of your Traditional IRA to a Roth IRA. Essentially, you're "paying" the tax on a portion of your IRA in a year when it won't cost you as much, then switching it into a tax-free growth account.

You also need to make sure you're contributing to your employer's 401(k) program. Those contributions are also made pretax so you can deduct your portion of the matching funds from your tax burden. If you haven't been contributing, see if you can make "catch-up" contributions to take advantage of the preferential tax treatment.

Regardless of how you save, you could be rewarded for it. The Saver's Tax Credit offers a sliding scale of tax breaks based on your income and how much you save. Investing in an approved retirement vehicle like a 401(k) or IRA can let you deduct as much as 50% of your contribution from your tax bill. How much you can deduct depends on your income and filing status.

Spend your "use-it-or-lose-it" funds

Many employers offer plans like Flexible Spending Accounts (FSA). These programs also offer preferential tax treatment, but many of them empty out at year-end whether you've used the funds or not. These programs are a great way to save for unplanned medical problems, but if you were lucky enough to avoid those costs, you'll need to spend that money before it goes away.

There are a few common tricks you can use to spend the money without wasting it. Obviously, if you've been putting off a minor medical procedure (a mole removal, an eye exam, new contacts) that's the easiest place to spend. Otherwise, you may need to get creative. A few staple goods are FSA eligible. Over-the-counter painkillers, first aid kits and supplies and some disaster preparedness supplies are generally eligible for reimbursement. Consider getting first aid kits as Christmas gifts for young children or donating them to community programs.

Plan your charitable contributions

If you're going to donate to a charity, you can give in a way that maximizes your tax benefit. One of the easiest ways to do that is to give stock. Not-for-profit organizations don't have to pay the capital gains tax, so they can sell it for the full amount. This means you get to take credit for the full value of the gift. This is also true if you plan to give real property (houses, buildings, land, etc.) or use another complex giving strategy to maximize the value of your contribution.

However you give, make sure you keep detailed records about your gifts. You want both a receipt from the organization and another form of proof, like a copy of a check or a bank record. Not-for-profit organizations are almost always overworked and understaffed, so counting on their bookkeeping can sometimes be an exercise in frustration. Keep your own records just to be sure.

Investigate early tuition payment

You or your child may have a big tuition bill coming due in a few months. If you wait to pay that until February or March when it comes due, you may miss out on a chance to cash in on the American Opportunity credit. The credit allows for a $2,500 deduction and as much as a $1,000 credit for eligible expenses for four years of undergraduate study.

If you are a student filing for the first time and don't have much of an income, paying your spring tuition now could result in a $1,000 check right around the time spring break rolls around.

Interested in investing for retirement, saving money for education or setting up your own Health Savings Account (HSA)? Request an appointment with us today at goGMFCU.org to learn more about how we can help you!