

6 Great Tax Tips for the End of the Year | Investing 101

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A woman calculating her taxes.

If you're getting a year-end bonus or can manage the cash outflow, be sure to max out your 401(k), individual retirement and health savings accounts this year. (Getty Images)

The end of the year is always a good time to do some [financial housekeeping](#), but this year in particular, uncertainty about tax reform may mean investors should throw a few more tricks onto their to-do lists.

Here are some of the most common tax tips financial planners are giving their clients this year.

Sell your portfolio losers. Hopefully, losers are hard to find in [your portfolio](#) this year, given large gains in the stock market. But comb through your investments and consider selling any losers.

"Known as tax-loss harvesting, if you have any positions in non-tax deferred accounts that are still sitting at a loss this year, go ahead and sell them before year-end and take the capital loss on your tax return," says Lea Ann Knight, principal and director of wealth management at North American Management in Boston, Massachusetts.

[See: [7 of the Best Stocks to Buy for 2018.](#)]

"If you like the stock, you can always buy it back in 30 days," she adds. "It's hard to find losses in equity positions this year, but there are likely to be some bond positions sitting at a loss."

Max out your savings and retirement accounts. If you're getting a year-end bonus or can manage the cash outflow, be sure to max out your 401(k), individual retirement and [health savings accounts](#) this year, says Chris Jaccard, a financial advisor with Financial

Alternatives in La Jolla, California.

The contribution limits for most Americans for 2017 are \$18,000 for a 401(k) and \$5,500 for an IRA. For an HSA, the limit is \$3,400 for an individual and \$6,750 for a family. Remember, you can make additional catch-up contributions if you are over age 50 in the case of retirement accounts, and age 55 with an HSA.

Technically, you have until tax-filing time to fully fund these accounts, but "it makes the record keeping easier for you if you fund the accounts in the same calendar year," says Kathleen Campbell, the founder of Campbell Financial Partners in Fort Myers, Florida.

Take your required minimum distribution. This is a big one, particularly for investors over age 70.5, as well as people who have inherited IRAs.

When savers fail to take their [required minimum distributions](#) properly, the penalties can be severe at 50 percent. Typically, IRA holders must take their first RMD in the year in which they turn age 70.5. While the first year's payment can be delayed until April of the following year, in all subsequent years, the withdrawal must be taken by Dec. 31.

If you like to give to charity, you can also consider giving your required minimum distribution to charity, says Patrick Chu, co-founder of Marrick Wealth in Irvine, California. IRA-holders over age 70.5 can make what's known as a "qualified charitable distribution" directly from their IRA straight to a charity. You don't have to disclose the income. QCDs are allowed up to \$100,000 and can lower your gross income for Medicare, plus the charity receives the full value.

Front-load your charitable contributions in 2017. The current tax reform proposal increases the standard deduction, meaning fewer taxpayers will be eligible to itemize deductions in 2018. As a result, you may want to give more to [charity](#) this year to maximize your tax deduction.

[See: [8 Cheap ETFs to Build Your Nest Egg.](#)]

"Many people may not itemize next year, given the possible higher standard deduction. So, they may be better off making extra charitable contributions this year," says Susan Strasbaugh, founder of Strasbaugh Financial Advisory in Colorado Springs, Colorado. "With increased stock prices, donating appreciated stock, especially through a donor-advised fund, makes a lot of sense right now."

Also, remember to keep good records to justify the claimed value of donated items, says Joseph Alfonso, founder of Aegis Financial Advisory in Cupertino, California. Any cash gifts over \$250 require a receipt or letter from the charity, and donations should be made by Dec. 31 to count for the tax year.

Prepay your property and state taxes. If you typically itemize deductions, remember you may no longer be eligible to do so if tax reform is signed into law next year. As a result, you may want to prepay the first installment of your 2018 property taxes before Dec. 31, to net a larger deduction this year, Chu says.

"This may be a consideration if you had a larger than expected income in 2017 or think your income may be less in the future," he says. "In addition, we may be losing the benefit of this deduction altogether."

Likewise, Chu encourages clients to consider prepaying their state income taxes. The current tax reform bill does away with deductions for state and local income taxes.

"Similar to the property tax prepayment, if you are going to owe the state come April 15, you might consider prepaying those taxes before year-end to take advantage of a larger deduction against your federal taxes. This deduction may also go away in 2018," he says.

Check your mutual fund distributions. If you hold any actively managed [mutual funds](#), make sure you check your estimated year-end distributions. This has been a good year for the stock market, and as a result, many mutual funds have realized large gains.

"Your mutual funds could be about to make substantial distributions which could significantly impact your tax situation outside of your control," says Kirsty Peev, a portfolio manager for Halpern Financial in Ashburn, Virginia.

Likewise, if you're in the market to buy a mutual fund, don't buy one right before it's expected to make a large distribution, says Mark Wilson, president of MILE Wealth Management in Irvine, California.

"If you buy one of these funds before year-end in a taxable account, you will be paying more taxes than you want to," he says. "If you are making year-end mutual fund purchases, find out how much (if any) and when they are distributing to avoid any surprises."

[See: [7 Stocks Primed for an Amazon Buyout.](#)]

Wilson runs a website, CapGainsValet.com, which tracks year-end

distributions. By his count, more than 320 mutual funds are set to make taxable distributions of more than 10 percent of their net asset value this year.

How to Reduce Your Tax Bill by Saving for Retirement

Portrait Of Happy Couple Inserting Coin In Piggybank.
(Getty Images)

Lower your tax bill.

Saving for retirement can qualify you for several different types of tax breaks. Some retirement accounts allow you to defer paying income tax on your retirement savings, while others help you avoid paying tax on any of the investment gains you accrue. Here's how to lower your tax bill while building wealth for the future.

IRA

Egg with the word IRAs on it
(iStockPhoto)

IRA

You can defer paying income tax on up to \$5,500 that you deposit in an individual retirement account. A worker in the 25 percent tax bracket who [maxes out this account](#) will reduce his federal income tax bill by \$1,375. Income tax won't be due until the money is withdrawn from the account.

401(k) plan

A woman works at a desk next to a cash jar marked 401k.
(Getty Images)

401(k) plan

These workplace retirement accounts allow employees to defer paying income tax on contributions of up to \$18,000 in 2016. While few people are able to do it, a worker in the 25 percent tax bracket who contributed the maximum amount to a 401(k) would [save \\$4,500 on his income tax return](#).

Roth IRA

A smooth stone with "ROTH" on it laying on raked sand.
(iStockPhoto)

Roth IRA

Contributions to a Roth IRA won't get you an immediate tax break.

However, the investment earnings aren't taxed while the money is in the account. And if you take withdrawals after age 59 1/2 from an account that is at least five years old, you [won't ever have to pay tax](#) on the investment growth.

Roth 401(k)

A clock on a 100 dollar bill.

(Getty Images)

Roth 401(k)

These workplace Roth accounts also allow you to avoid paying tax on your investment earnings if you delay withdrawals until retirement. Roth 401(k)s have the same \$18,000 contribution limit of traditional 401(k)s.

Catch-up contributions

50th Birthday candles on a cake

(iStockPhoto)

Catch-up contributions

Workers age 50 and older are eligible to defer taxes on an additional \$6,000 in their [401\(k\) plans](#) in 2016, for a total contribution of up to \$24,000. They can also contribute up to \$6,500 to an IRA, \$1,000 more than younger savers.

IRA conversion

Change ahead warning sign over blue sky.

(Getty Images)

IRA conversion

You can convert your traditional IRA balance to a Roth IRA if you pay income tax on the amount you convert. You might be able to reduce your lifetime tax bill if you complete the conversion in a year you have unusually low earnings. For example, if you expect to be in the 25 percent tax bracket in retirement, but pay a 15 percent tax rate on the converted amount, you will have decreased the tax due on your retirement savings.

MyRA

Macro shot of \$1000 stock or bond certificate with directional lighting.

(iStockPhoto)

MyRA

The [myRA](#) is a new type of Roth retirement account that is guaranteed never to lose value. The only investment option is a Treasury savings bond. Once you accumulate an account balance of \$15,000 or the account turns 30 years old, the money is transferred to a private sector Roth IRA.

Tax refund

Closeup of a tax refund check from the IRS

(iStockPhoto)

Tax refund

Part or all of your tax refund can be directly deposited into an IRA using IRS Form 8888. You can elect to use your refund to reduce next year's tax bill or even your current tax bill if you meet the IRA contribution deadline.

Saver's credit

Tax Form 1040 - man performing tax calculations

(Getty Images)

Saver's credit

In addition to the tax deduction on your retirement account contributions, low- and moderate-income workers can also [claim the saver's credit](#). This tax credit is worth between 10 and 50 percent of your retirement account contributions up to \$2,000 for individuals and \$4,000 for couples.

Donate your IRA distribution to charity

A charity jar filled with coins.

(Getty Images)

Donate your IRA distribution to charity

Retirees typically need to pay income tax on withdrawals from traditional retirement accounts. However, retirees ages 70 1/2 or older who directly transfer their IRA withdrawals of up to \$100,000 to a qualified charity will not owe income tax on the distribution.

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