Year-End Financial Planning:

5 Strategies to Help Avoid Financial Landmines

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At the end of every year is a new beginning. As you look toward January, it's important to ask yourself this one key question in order to lay the groundwork for a strong year to come.

Heading into late fall and the start of winter often bring thoughts of haunted houses, Thanksgiving feasts, followed by a flurry of holiday shopping, entertaining and family gatherings.

Still, while we don't want to sound like Scrooge, among all these activities, it's important not to let your financial plan go dormant. This is particularly true during the last few months of the year, since some financial decisions can't be reversed and implemented after December 31.

Therefore, consider these five financial concepts to help strengthen your financial plan before year end, and avoid related landmines or missed opportunities that could deter you from achieving your long-term goals.

Throughout our guide, we draw upon many resources and alternative viewpoints, including insights and experiences provided by GW & Wade Principal and Financial Counselor, Robert F. Bodio, Jr., JD.

1.

Use, Adjust & Catch Up On Flexible Spending Accounts

You've been working hard this past year and saving along the way. Don't forget to use your HSA savings, and for those of you who are age 55 and older, you're allowed to stash away an extra pre-tax $1000 of savings per year.

Let's look at two highly popular accounts:

Dependent Care FSA

A plan whereby you must use all of your savings by year end (or plan year) or you lose the money.

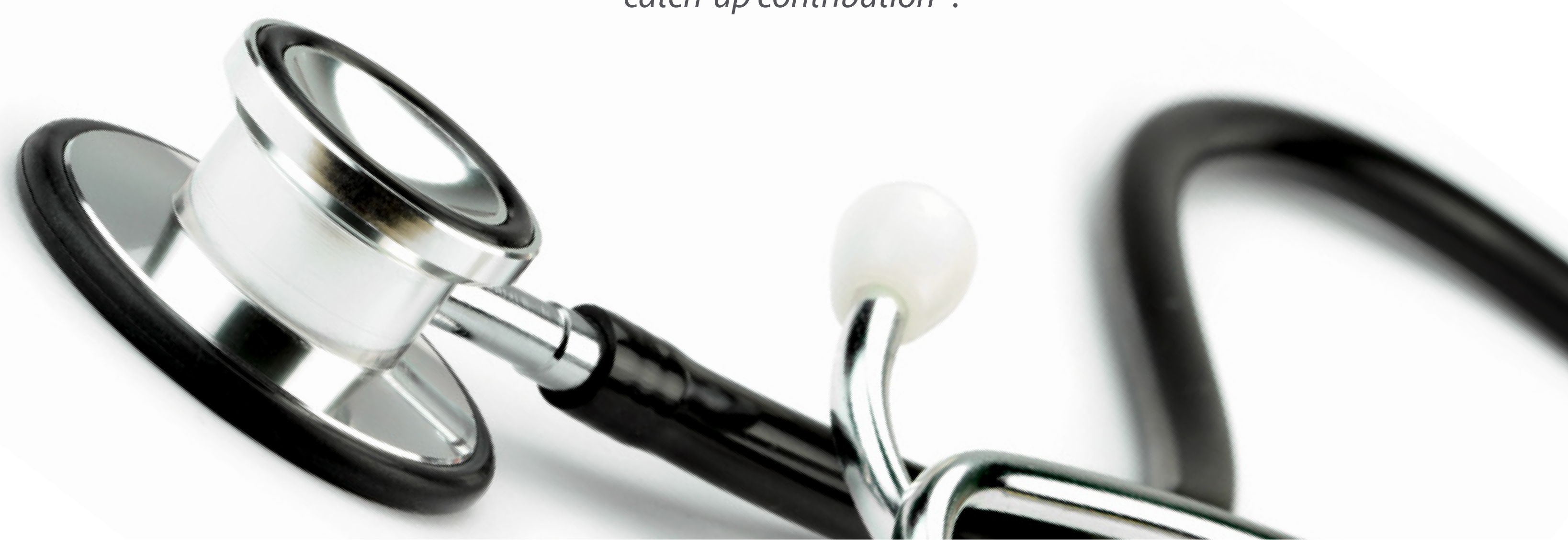
According to employee benefits administrator CONEXIS, any unused funds that remain in your dependent care FSA will be forfeited at the end of the plan year. FSA funds do not roll over to the following year. The unused funds cannot be paid to you in cash or other benefits. Some, not all, FSA plans include a run-out period and a grace period extension for participates who haven't spent all of their savings by the plan's year end [i].

CONEXIS provides a detailed resource summarizing **Guidelines for Using Your Dependent Care FSA**, including explanations regarding run-out and grace periods.

Health Care HSA

A key advantage of a health care HSA is that your savings are allowed to roll over from year to year. In fact, there is currently no limit as to the amount you can continue to carry forward each year. The key here is to make sure you're optimizing these benefits, including knowing and maximizing contribution limits.

According to the Society for Human Resource Management (SHRM), 2017 HSA annual contribution limits are $3,400 for an individual and $6,750 for a family. SHRM offers a **comprehensive contribution chart**. Also, they kindly remind us that if you're age 55 or older, you can contribute an extra $1,000 annually to your HSA, also known as a *catch-up contribution* [ii].

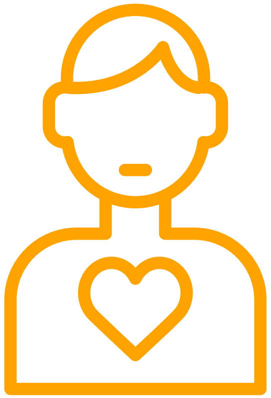


Health Care & Related Concern

Young Adult College-Age Children

According to GW & Wade Principal and Financial Counselor, Robert F. Bodio, Jr., JD , if your son or daughter is age 18 or older and is off at college, keep in mind that you can **no longer** gain access to their health care information without your child's consent.

Therefore, if your child is hospitalized and you call asking questions about their well-being, it's illegal for the medical professional to provide answers. This restriction is part of The HIPAA Privacy Rule. To safeguard against this happening to you and your child, **we discuss three legal documents in a recent blog post** that your child should complete, enabling you to help them in the event of a medical emergency or similar.



2.

Schedule Medical Appointments & Tests

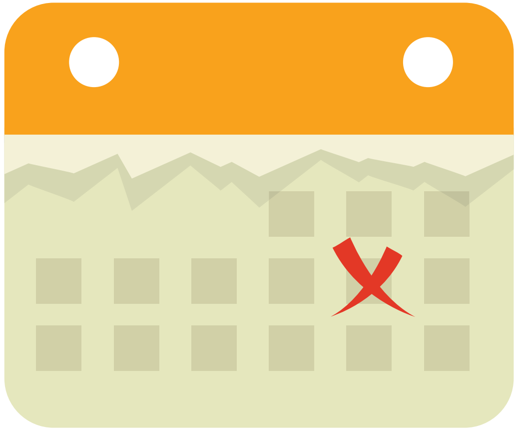
January 1 is right around the corner. For many of us, our health insurance plan's annual deductible kicks in again. Keep more money in your pocket by scheduling medical appointments you've been putting off.

Schedule Your Appointments

As the holiday season surrounds us, oftentimes the last thing we want to do is take a trip to the doctor or undergo a medical procedure. Still, if your shoulder is still bothering you or your knees are acting up, get to your doctor's office pronto!

Why?

Because **many health care plan deductibles reset** on January 1. Therefore, if your annual deductible is $3000 before your insurance company starts paying for some of your health care expenses, then be prepared to pay this $3000 again come the first of the year.



3.

Maximize Year-End Tax & Other Planning Strategies

Making decisions regarding: tax-loss harvesting, charitable tax deductions using appreciated securities, renewable energy credits, deciding what taxes to pay before December 31, can be a bit overwhelming. We walk you through each one and more.

There are many ways to strengthen your financial situation come year end, including considering some of the following:

Tax-Loss Harvesting

“Tax-loss harvesting is when an investor sells stocks and other securities that are worth less today than what the investment originally cost them,” says Bodio. “The overall idea behind this strategy is to lower your taxable income by selling off securities that have generated an investment loss.”

However, investors should watch out for the wash-sale rule.

Investopedia offers the following definition for the **wash-sale rule**, “It’s an Internal Revenue Service (IRS) rule that prohibits a taxpayer from claiming a loss on the sale or trade of a security in a wash sale. The rule defines a wash sale as one that occurs when an individual sells or trades a security at a loss, and within 30 days before or after this sale, buys a “substantially identical” stock or security, or acquires a contract or option to do so. A wash sale also results if an individual sells a security, and their spouse or a company controlled by the individual buys a substantially equivalent security.” [iii]

Maximize Charitable Tax Deductions With Appreciated Securities

Depending on your tax situation this year, it could be beneficial to remove a tax gain from your portfolio by donating a specified amount of securities to a nonprofit organization.

Kiplinger summarizes the process, “**Giving appreciated stock** you’ve held for more than a year is better than giving cash. If you donate stock that has increased in value since you bought it more than a year ago, and if you itemize deductions, you can take a charitable deduction for the stock’s fair market value on the day you give it away. You’ll also avoid capital gains taxes on the increase in value over time, which you would have had to pay if you sold the stock then and gave the charity the cash proceeds.” [iv]

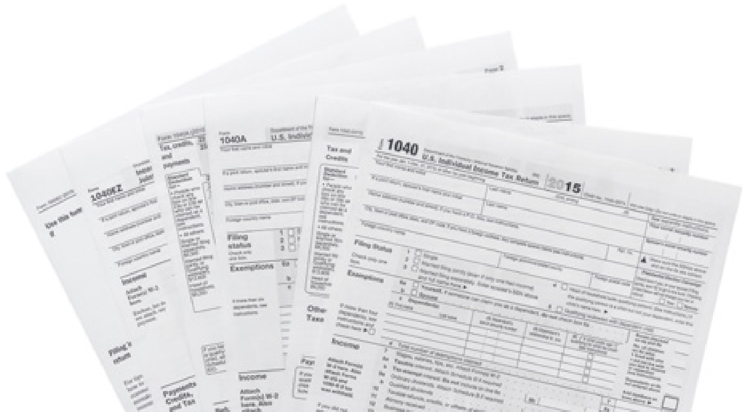
Pay Next Year's Taxes This Year

If you're itemizing deductions using a **Schedule A (Form 1040)**[v], there are several 2018 taxes you can pay this year in order to lower your taxable income, including:

- Excise
- Real Estate
- 2017 State Quarterly (Typically due on 1/15.) There is no tax benefit to prepaying a federal quarterly estimated payment.

You can also prepay your January mortgage, enabling you to increase your mortgage deduction for the current year.

All of these payments may be a good idea given the pending tax legislation which could dissallow some or all of these deductions in 2018.



Modify Tax Withholdings

"Consider changes in your life that have occurred this year that may necessitate updating your tax withholdings," says Bodio. "For example, did you adopt a child, get divorced or were you unemployed several months? If so, you'll want to take a close look at your withholdings in order to avoid any surprises come April tax day."

Related Resource:

Divorce can be challenging. If you're considering divorce or in the midst of one, then we encourage you to download our informative guide:

Divorce Financial Planning: 20 Actions to Take Before, During, and After Your Transition.

DOWNLOAD IT NOW

Max Out Retirement Plan Contributions

According to Bodio, $18,000 is the annual contribution limit for most employees who participate in their employer-sponsored retirement plans, including 401(k)s and 403(b)s. For small business owners, the annual contribution limit for 2017 is $54,000 for Solo 401(k)s/Profit-Sharing plans and SEP IRAs. Furthermore, employees or sole-proprietors age 50 and older can add an additional $6,000 per year in catch-up contributions.

Resources:

Bankrate provides a simplified **chart reflecting 2017 IRS limits for retirement plans**. [vi] Also, if you're someone who enjoys a deep-dive look, here is a detailed **2017 retirement plan limits announcement** [vii] from the IRS that includes phase-out income ranges.

Keep in mind that while many investors believe they're on target to contribute the maximum, oftentimes what you believe to be all set, really isn't. Therefore, be sure to **double check** that you are truly set up to max out your contributions, ultimately reducing your taxable income for the year while optimizing tax-advantaged retirement benefits.

Employment Transitions & Roth IRAs

Many individuals find their income is too high to invest in a Roth IRA. In 2017, individuals with an adjusted gross income of $131,000 per year (couples is $193,000) are not eligible to invest in Roth IRAs.

However, if you find yourself in a job transition, including taking a sabbatical or time off from work to care for a sick family member, your annual income this year may end up being lower than usual. In this instance, you may qualify to invest in a Roth IRA.

What's more, be sure to evaluate the potential for converting some or all of your traditional IRA to a Roth IRA during lower earning years.

Why bother?

"The key benefit to Roth IRAs is that earnings and withdrawals are usually tax-free during retirement," says Bodio. "The key to any successful retirement tax diversification strategy is to have various investment withdrawal options."

Special Note:

For some investors, there is a **Roth IRA workaround**. [viii]

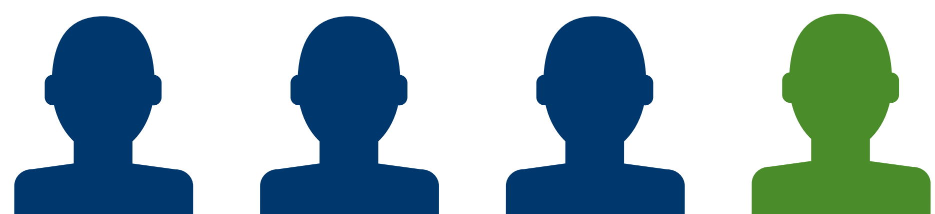
Review Credit & Protect Identity

The need for vigilant credit and identity theft monitoring continues to escalate, particularly with the recent **Equifax data breach**. It's imperative to monitor your credit on an ongoing basis for two key reasons:

1. To ensure that it's accurate.
2. To spot identity theft activities.

Overall, if you have a monitoring service in place, keep it. You can also consider adding a service such as LifeLock, which notifies you if your personal information is used to make a credit application.

According to **LifeLock**[ix], **one in four people experience identity theft.**



Related Resource:

In a recent **GW & Wade blog post**, we've outlined steps to take to protect your identity and credit.

GO TO THE BLOG

2017 Renewable Energy Tax Credits

If you're seeking to diversify how you energize your home or office, renewable energy may be an effective option and comes with a federal tax credit.

According to **EnergySage** [x], "The federal solar tax credit, also known as the investment tax credit (ITC), allows you to deduct 30 percent of the cost of installing a solar energy system from your federal taxes. The ITC applies to both residential and commercial systems, and there is no cap on its value."

EnergySage adds, "Thanks to the spending bill that Congress passed in late December 2015, the tax credit is now available to homeowners in some form through 2021. For the years 2016 – 2019, the tax credit remains at 30 percent of the cost of the system. This means that in 2017, you can still get a major discounted price for your solar panel system… and claim it as soon as the construction of the system begins, as long as it is operational by December 31, 2023."

Massachusetts residents can take advantage of a **state personal income tax credit up to $1,000**, as well as a 100 percent state sales tax exemption, specifically for solar and wind equipment and service purchases for a principal residence.

Resource: Detailed list of the gradual step down in the credit value. [xii]

Resource: List of solar incentives by state. [xiii]

4.

Remain True to Your Long-Term Financial Plan

Are you on target to reach your annual goals? Either way, consider these concepts to help you achieve your annual and long-term goals.

"It's easy to get carried away in the moment, particularly during this bull market with stocks swelling beyond imagination," says Bodio. "But don't get greedy. Remember, what goes up comes down. Also, if you're not comfortable with your risk profile, then be sure to rebalance your portfolio."

He adds that now is an excellent time to assess your goals. Ask yourself if you met your savings goals, such as those for retirement and your children's college education. If you haven't, then now is the optimal time to ask yourself how you'll reach them by year end.

For Example:

Are you anticipating a year-end bonus? Rather than spend it on a vacation, consider applying it to your savings.

"Oftentimes parents struggle with juggling saving for retirement and their children's education," says Bodio. "Sometimes you simply can't achieve both goals at the same time. At this juncture, you need to prioritize your goals. It's important to put yourself first. This can be difficult for many parents since we all want the best for our children, such as helping them achieve a higher education. But frankly, one of the best things we can do for our children is keeping ourselves financially independent, minimizing future burden on them."

5.

Look Toward January

Are you on target to reach your annual goals? Either way, consider these concepts to help you achieve your annual and long-term goals.

For successful long-term financial planning, it pays to take a quick look into the coming year. Bodio suggests that you ask yourself the following key question and plan accordingly:

Do you foresee any life changing events in the coming year that may alter or even derail your financial plan?

Four Examples:

#1 – Has your employer been struggling and, therefore, a possible layoff may be looming for you? In this instance, it makes sense to prepare ahead of time and ensure that you have several months of liquidity available, rather than selling off equities last minute to account for a rapid need in funds.

#2 – Are you planning on a large home renovation or purchasing a second home? Again, consider the timing of the liquidity you'll need for these events and build up a war chest of cash ahead of time.

#3 – Another year is passing, have your assets grown substantially? Double check that you have adequate insurance and other asset protection strategies in place.

#4 – Is there a medical or dental situation looming in your near future? Again, having cash readily available is the most efficient way to handle such a short-term, yet potentially expensive need.

Final Thoughts.

Life moves quickly. Therefore, as you're enjoying all the extra festivities in the coming days and weeks, remember, rarely does an individual accomplish their long-term goals without ongoing financial planning. In particular, the financial decisions that individuals make in the days just prior to December 31 of each year tend to either strengthen or weaken their particular financial situation.

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If you have questions or concerns regarding your financial health and circumstances, please **contact us** for a complimentary consultation. Our priority is helping others to maximize wealth and achieve lifetime goals.

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Resources

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