

Income Tax Strategies for Every Season



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In the United States, tax season generally runs between January 1 and April 15, the time each year that most people prepare, file, and pay their taxes for the previous year, but managing income tax liability is an ongoing process that requires year-round consideration.

Careful timing of future income and deduction items and proactive identification of potential opportunities – such as tax efficient-retirement vehicles, charitable giving strategies, realizing capital gains, Roth IRA conversions, tax credit eligibility, and more – can result in a more favorable income tax position both on a year-by-year basis and over the long term.

Tax laws and regulations are constantly changing and regular review of recent or proposed legislation with your financial professionals can positively impact your existing tax situation as well as identify potential new opportunities to lower your future tax burden.

Many of the items listed below may be applicable throughout the year, however, this list of tax planning strategies is grouped by season to help you manage your income tax liability throughout the year and be better prepared for the annual deadlines.

Strategies for the Spring

After the new year:

- You have until the individual tax filing deadline, not including extensions, to make contributions to certain tax-advantaged accounts for the previous calendar year, including to an individual retirement account (IRA), health savings account (HSA), Coverdell Education Savings Account (CESA), simplified employee pension (SEP), and solo 401(k).
- The individual tax-filing deadline, not including extensions, for any year is generally April 15 of the following year.
 - Gather your expected tax documents (W-2s, 1099s, K1s, etc.).
 - Identify qualified charitable distributions (QCDs), retirement plan rollovers, and other tax-related activities performed during the previous year.
 - If you need additional time to complete your tax return, you may request a six-month extension of time to complete your individual income tax return.
 - To get the extra time, you must properly estimate your tax liability using the information available to you.
 - Although you aren't required to make a payment of the tax you estimate as due, the automatic extension doesn't extend the time to pay taxes. If you don't pay the amount due by the regular due date, you'll owe interest and may also be charged penalties.

Strategies for the Summer

- Determine if you need to make estimated tax payments for the upcoming tax year.
- Review your employer retirement plan contributions and consider Roth vs non-Roth contributions based on income/wage level.
- Review the potential benefit of a Roth conversion for your tax-deferred retirement accounts.
- If you have Social Security income, review your other sources of income, and consider strategies to mitigate the taxable amount of your benefits.
- Review your existing estate plan and consider gift and estate planning opportunities.

Strategies for the Fall

- Review and adjust employer withholding levels:
 - Decrease to avoid large overpayments, or
 - Increase to avoid substantial underpayments.
- Review employer-provided benefits to ensure you are taking full advantage of any pre-tax options.
- Begin planning your charitable giving now to avoid year-end rush, particularly if you anticipate opening and contributing to a donor advised fund (DAF).

Strategies for the Winter

Before the end of the year:

- Consider how recent or proposed legislation or regulatory action may impact strategies.
- If you have any realized capital gains for the year, consider offsetting those gains through tax-loss harvesting by intentionally selling securities from one of your taxable accounts at a loss and reinvesting the money in a similar investment or rebalancing, if needed.
- Review the potential benefit of a Roth conversion for your tax-deferred retirement accounts.
- Review workplace retirement plan contributions for remaining income deferral opportunities.
- Consider timing of charitable contributions to maximize the tax benefit.
- Shift income by delaying or accelerating scheduled distributions.
- Complete any required minimum distributions (RMDs) if you have reached age 73 or older or inherited an IRA.

Planning for the new year:

- Consider how recent or proposed legislation or regulatory action may impact your tax strategies.
- Review age-related milestones that may apply for a year in which you reach a certain age – many aspects of the tax code are linked to age requirements and most retirement accounts have rules around contributions and withdrawal that are based on age.

No matter your age, income, or goals, income taxes are a significant annual expense and one that touches virtually every part of your financial life. Working with your financial professionals to review your current and prior year tax returns, you can determine what steps are necessary to ensure you are as tax efficient as possible, potentially identify strategies to decrease the amount owed in subsequent years, and discover additional strategic opportunities that can provide benefits for many years.

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