YOUR FINANCES
Navigate New Rules

Four Year-End Tax Tips For Your 2018 Return

Cut amount you'll owe, position your portfolio for more future growth

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Tick, tock, tick. . . . With the start of the fourth quarter, it's time for yearend tax planning. Following good tax tips now can save you big bucks on your return.

As an added benefit, tax tips that require tweaking your portfolio can also lead to bigger investment bucks down the line.

"If you pay attention, there's quite a lot of benefit that you can accomplish for your family, your business and your community," said Suzanne Shier, chief tax strategist for wealth management at Northern Trust. "And it's especially worthwhile since this is the first year under the new rules of the federal tax overhaul."

Here are four steps that can shrink what you owe Uncle Sam and improve the positioning of your portfolio for future growth.

Rebalance your portfolio. "It's time to get your asset allocation back in line with your long-term investment plan," said David

Brinkman, investment relationship manager of Schneider Downs Wealth Management Advisors in Ohio.

Rebalancing can be less of an issue (if any) with your individual stocks, based on the rules of timetested CAN SLIM strategy. But rebalancing can be important for the long-term mutual funds portion of your portfolio, for the average investor with a long time horizon.

Foreign stock mutual funds, for example, have generally lost ground this year, while U.S. diversified stock funds have advanced. And what about your mix of small-, mid- and big-cap stocks?

If the market has thrown your target mix of assets out of whack, then it's time to think about harvesting losses to offset taxable gains, and taking profits, all with an eye to restoring your target asset allocation.

Charitable donations. In addition to helping others, there are tax benefits, starting with your charitable deduction.

And there's a second layer of tax benefit if you're old enough. In the year you turn 70-1/2, you must begin withdrawals from traditional IRAs known as required minimum distributions (RMDs).

Normally, that money is taxable. And it can lift your income above levels where you'd owe the 3.8% net investment tax or have to pay higher Medicare Part B premiums.

But if you make a direct payout from your traditional IRA — called a distribution — of up to $100,000 to a qualified charity, that withdrawal counts toward satisfying your RMD for the year. And it does not count as part of your income.

Pretty sweet if you're going to give to charity anyway, in a year when new rules will discourage many taxpayers from itemizing deductions. This is a way to get a tax benefit without itemizing.

Itemize on your 2018 return. But why? Under tax reform's new rules, the standard deduction is simpler and has nearly doubled to $12,000 for single taxpayers and to $24,000 for marrieds filing jointly.

But Shier says itemizing one year and then taking the standard deduction the next year can be a better deal, if you can afford it.

"Suppose you and your spouse typically give $10,000 a year and have other deductions totaling $13,000," she said. On the face of it, wouldn't you be better off taking the standard deduction both years?

Not if you donate $20,000 this year instead of $10,000, and zero next year. Then your total deductions for this year would be $33,000. Combined with your $24,000 standard deduction next year, your deductions would add up to $57,000 instead of the $48,000 you'd get with the standard deduction both years.

Contribute to a Roth 401(k) account. You can do this if your plan offers a Roth option, which 68% of the plans run by, for example, Vanguard did as of year end 2017.

This is more likely to benefit young workers who expect their tax bracket to rise in the future including retirement, and have a long time until retirement.

That's because contributions to a Roth account count as part of your taxable income. But withdrawals, presumably decades later, are tax free. So a young worker is opting to pay tax now at a lower rate than he or she would years later.

Also, if you leave a Roth account to beneficiaries, generally they get tax-free withdrawals too.