

PLANNING FOR TAX CHANGES

April is a good time to consider strategies to help you reduce your tax bill. The best way to begin is by pulling out the prior year's tax return along with your current pay stubs and account statements. Doing a few quick projections will help you estimate your present tax situation and identify any concerns to address while there's still time remaining in the year.

Get your withholding on track.

Every employer withholds a certain amount from your paycheck for taxes, and what they withhold is based on information that you give them. With the new tax law, the amount that is being withheld from your paycheck has likely changed. Make sure that amount is reflective of your current tax situation and that you check your withholdings each year. Or you may have other changes in your situation that will cause the current year tax to be more than the prior year. In that case, ask your employer to increase your federal income tax withholding amounts. Changing withholding now can help you avoid possible penalties for under-withholding.

On the other hand, if you often get a large refund or expect to see one this year because of a change in your income, you may want to reduce your withholding accordingly. That will put money in your pocket now, and you won't have to wait for your refund check to come next year. See a CPA for assistance with this calculation to ensure you have accounted for potential changes.

The W-4 form you fill out to determine taxes withheld from your paycheck had a major overhaul as of 1/1/2020. Most employers and their HR departments will not assist employees with filling out the Form W-4. Contact your CPA for help with this form in 2021.

The IRS replaced the withholding calculator with their new Tax Withholding Estimator. This can be a helpful tool to review withholding.

Give gifts that give back.

If you itemize your deductions, bunch contributions, taxes, etc. into years that allow you to exceed the standard deduction. Consider donating money or property to charity to increase the amount you can deduct on your taxes. If you donate an appreciated asset, you won't

have to pay tax on the gain and, in most circumstances, you will be able to take a deduction for the market value of the property. Donating appreciated property, however, is more complex than making cash donations. You will want to see your CPA prior to donating appreciated property to make sure you do not lose any of the tax benefits available.

Postpone the inevitable.

To reduce your taxable income during the year, consider maximizing pretax contributions to an employer-sponsored retirement plan, such as a 401(k). You won't be taxed on the contributions you make now and you may be in a lower tax bracket when you do eventually withdraw the funds and report the income.

If you qualify, you might also consider making either a tax-deductible contribution to a traditional IRA or an after-tax contribution to a Roth IRA. In the first instance, a current income tax deduction effectively defers income—and its taxation—to future years. In the second, while there's no current tax deduction allowed, qualifying distributions you take later will be tax free. You'll generally have until the due date of your federal income tax return to make these contributions.

Contact your CPA before making any major financial decisions.

It is too late to do tax planning after a transaction has been completed. When it comes to major business decisions, sales of real property or investing in a new activity, it is always wise to contact your CPA before you finalize the transaction. This could save you money and prevent you from losing any tax advantages that may be available.