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7 Year-End Financial Planning Tips

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As 2019 comes to a close, it's an important time to make sure your financials are buttoned up for the year. After all, there is no sense in losing out on money, paying penalties, or incurring additional taxes unless absolutely necessary. Here are some ideas to consider as we approach 2020.

Making sure you are maxing out your retirement plan contributions is always on top of the list. Once the calendar flips, you won't be able to go back and add contributions to 401(k) and 403(b) accounts. For 2019 you can contribute up to $19,000 to your employer sponsored plan, and an additional $6,000 if you turned 50 this year. For Traditional and Roth IRA accounts, you will have until April 15, 2020 to make your contributions of up to $6000 with an additional $1000 if you are over 50 this year.

It is also a good time to consider a Roth conversion. Even if you have too much income to contribute to a Roth IRA, conversions are available to everyone, no matter how much you make. For retirees who are not yet of RMD age and in a relatively low income tax bracket, it can be especially attractive. Remember, the funds you convert to a Roth grow tax-free forever, and are not subject to RMD's (Required Minimum Distributions). This can be a powerful planning move for both you and your heirs.

Make sure to use the money in your Flexible Spending Account (FSA). A flexible spending account is a special tax-free account in which you can contribute money that will pay for services that your health care coverage doesn't cover. Many employers have a "use it or lose it" policy when it comes to their FSA, so check with your benefits department before assuming you can rollover funds into next year.

If you have a High-Deductible Health Plan, then you may qualify to open a Health Savings Account (HSA). These accounts are a great way to save and they have one of the best tax treatments available from the US government. Contributions to an HSA plan are tax deductible and qualified distributions can be withdrawn tax-free. Effectively, you are able to fully deduct your medical expenses from your income. For 2019, a family can contribute $7,000, and individuals up to $3,500. Those over 50 may also add another $1,000 "catch up" contribution. You will have until April 15, 2020 to fund your HSA for 2019.

If you turned 70 ½ during 2019 you will need to take Required Minimum Distributions from your IRA and other qualified accounts. To avoid costly penalties, you must take an RMD from the IRA's every year before December 31. If you really don't have a need for the funds, you can simply open an after-tax brokerage account to move the assets into so the money can remain invested. If you are charitably inclined, you can donate all or a portion of your RMD to a qualified charity and avoid paying taxes.

Donating to a worthy cause has multiple benefits. It is a noble way to improve the life of others around you and also provides you with some tax benefits. You can donate cash, items, or highly appreciated assets such as stock or real estate. These donations can have some tax benefits if the charity qualifies, so make your gifts before the end of the year.

Following the idea of charitable giving, consider making gifts to family members to help reduce the size of your estate. Per IRS rules, every taxpayer can gift up to $15,000 to an individual recipient in one year. There is no limit to the number of recipients you can give a gift to, but there is a lifetime exemption of $11.4 million.

Finally, find every opportunity to reduce your taxable income. If you have losses in a non-retirement account, you should consider the strategy of offsetting gains for the year with losses. You can also claim up to a maximum of a $3,000 loss against income above and beyond what gains were offset with losses. By selling losing positions to realize the loss, you are reducing taxable income for the 2019 tax year.

Hopefully, these ideas incorporated into a well thought out financial plan can help bring in a prosperous new year for you and your family.