Seven Year-End Tax Tips for 2018

Here are 7 tax moves for you to consider before the end of the year.
1. Defer income to next year. Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

2. Accelerate deductions and take capital losses. You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, paying medical expenses, mortgage interest, and charitable deductions before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

3. Harvest Capital Gains and Losses. Any appreciated stocks that you have held for a year and a day you can lock in the lower capital gains rate by selling at year end. You should also consider selling any stocks that can generate capital losses which you can deduct up to $3,000 after netting all your capital losses against all your capital gains. Keep in mind after you sell a stock you can buy it back after 31 days to avoid the wash sale rules.

4. Maximize retirement contributions. Deductible contributions to a traditional IRA, SIMPLE IRA or SEP IRA or pre-tax contributions to an employer-sponsored retirement plan such as a 401(k), can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

5. Take any required minimum distributions. Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans. However an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

6. Beware of the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

7. Bump up withholding if you expect to owe tax. If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding for 2018.

If you have any questions or need any help preparing your taxes please call Gregory J. Spadea at 610-521-0604. The Law Offices of Spadea & Associates, LLC prepares tax returns and advises business and individual clients on estate and tax planning year round.