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Your 2017 Financial To-Do List

Things you can do for your future as the year unfolds.

Provided by Chris Eller

What financial, business, or life priorities do you need to address for 2017? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to lowering your taxes. You have plenty of options. Here are a few that might prove convenient:

Can you contribute more to your retirement plans this year? In 2017, the contribution limit for a Roth or traditional IRA remains at $5,500 ($6,500 for those making “catch-up” contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $133,000 and joint filers with MAGI above $196,000 cannot make 2017 Roth contributions.[1]

For TY 2017, you can contribute up to $18,000 to any kind of 401(k), 403(b), or 457 plan, with a $6,000 catch-up contribution allowed if you are age 50 or older. If you are self-employed, you may want to look into whether you can establish and fund a Solo 401(k) before the end of 2017; as employer contributions may also be made to Solo 401(k)s, you may direct up to $54,000 into one of those plans this year.[1]

Your retirement plan contribution could help your tax picture. If you haven’t turned 70½ this year and you participate in a traditional qualified retirement plan or have a traditional IRA, you can cut your 2017 taxable income through a contribution. Should you be in the 35% federal tax bracket, you can save $1,925 in taxes as a byproduct of a $5,500 regular IRA contribution.[2]

What are the income limits on deducting traditional IRA contributions? If you participate in a workplace retirement plan, the 2017 MAGI phase-out ranges are $62,000-$72,000 for singles and heads of households, $99,000-$119,000 for joint filers when the spouse making IRA contributions is covered by a workplace retirement plan, and $186,000-$196,000 for an IRA contributor not covered by a workplace retirement plan, but married to someone who is.[1]

Roth IRAs and Roth 401(k)s, 403(b)s, and 457 plans are funded with after-tax dollars, so you may not take an immediate federal tax deduction for your contributions to these plans. The upside is that if you follow IRS rules, the account assets may eventually be withdrawn tax free.[3]

Your TY 2017 contribution to a Roth or traditional IRA may be made as late as the 2018 federal tax deadline – and, for that matter, you can make a 2016 IRA contribution as late as April 18, 2017, which is the deadline for filing your 2016 federal return. There is no merit in waiting until April of the successive year, however, since delaying a contribution only delays tax-advantaged compounding of those dollars.[3]

Should you go Roth in 2017? You might be considering that if you only have a traditional IRA at this point. This is no snap decision; the tax impact of the conversion must be weighed versus the potential future benefits. If you are a high earner, you should know that MAGI phase-out limits may affect your chance to make Roth IRA contributions. For 2017, phase-outs kick in at $186,000 for joint filers and $118,000 for single filers and heads of household. Should your MAGI prevent you from contributing to a Roth IRA at all, you still have the chance to contribute to a traditional IRA in 2017 and then go Roth.[1]

Incidentally, a footnote: distributions from Roth IRAs, traditional IRAs, and qualified retirement plans, such as 401(k)s are not subject to the 3.8% Medicare surtax affecting single/joint filers with AGIs over $200,000/$250,000. If your AGI surpasses these MAGI thresholds, then dividends, royalties, the taxable part of non-qualified annuity income, taxable interest, passive income (such as partnership and rental income), and net capital gains from the sale of real estate and investments are subject to that surtax.[4]

Consult a tax or financial professional before you make any IRA moves to see how they may affect your overall financial picture. If you have a large traditional IRA, the projected tax resulting from a Roth conversion may make you think twice.

What else should you consider in 2017? There are other things you may want to review or do.

Make a charitable gift. You can claim the deduction on your 2017 return, provided you itemize your deductions with Schedule A. The paper trail is important here.[5]

If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity this year, but only end up gifting $500, you can only deduct $500.[5]

What if you gift appreciated securities? If you have owned them for more than a year, you will be in line to take a deduction for 100% of their fair market value, and avoid capital gains tax that would have resulted from simply selling the investment, and then donating the proceeds. (Of course, if your investment is a loser, it might be better to sell it and donate the money, so you can claim a loss on the sale and deduct a charitable contribution equal to the proceeds.)[6]

Does the value of your gift exceed $250? It may, and if you gift that amount or larger to a qualified charitable organization, you will need a receipt or a detailed verification form from the charity. You also have to file Form 8283 when your total deduction for non-cash contributions or property in a year exceeds $500.[5]

If you aren't sure if an organization is eligible to receive charitable gifts, check it out at irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

See if you can take a home office deduction. If your income is high and you find yourself in one of the upper tax brackets, look into this. You may be able to legitimately write off expenses linked to the portion of your home used to exclusively conduct your business. (The percentage of costs you may deduct depends on the percentage of the square footage of your residence you devote to your business activities.) If you qualify for this tax break, part of your rent, insurance, utilities, and repairs may be deductible.[7]

Open an HSA. If you are enrolled in a high-deductible health plan, you may set up and fund a Health Savings Account in 2017. You can make fully tax-deductible HSA contributions of up to $3,400 (singles) or $6,750 (families); catch-up contributions of up to $1,000 are permitted for those 55 or older who aren't yet enrolled in Medicare. Moreover, HSA assets grow untaxed, and withdrawals from these accounts are tax free if used to pay for qualified health care expenses. In most cases, withdrawals are hit with a 20% IRS penalty if they aren't used to pay for qualified medical expenses.[8]

Practice tax-loss harvesting. By selling underperforming stocks in your portfolio, you could record at least $3,000 in capital losses. In fact, you may use this tactic to offset all of your total capital gains for a given tax year. Losses that exceed the $3,000 yearly limit may be rolled over into 2018 (and future tax years) to offset ordinary income or capital gains again.[2]

Pay attention to asset location. Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pre-tax accounts, and your most tax-efficient securities should be held in taxable accounts.

Review your withholding status. Should it be adjusted due to any of the following factors?

* You tend to pay a great deal of income tax each year.
* You tend to get a big federal tax refund each year.
* You recently married or divorced.
* A family member recently passed away.
* You have a new job and you are earning much more than you previously did.
* You started a business venture or became self-employed.

Are you marrying in 2017? If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2017, you will need a new Social Security card. Additionally, the two of you, no doubt, have individual retirement saving and investment strategies. Will they need to be revised or adjusted with marriage?

Are you coming home from active duty? If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still there, and revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions. Are you planning to sell any real estate this year? Are you starting a business? Do you think you might exercise a stock option? Might any large commissions or bonuses come your way in 2017? Do you anticipate selling an investment that is held outside of a tax-deferred account? Any of these actions might significantly affect your 2017 taxes.

If you are retired and older than 70½, remember your year-end RMD. Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs and 401(k), 403(b), and profit-sharing plans by December 31 of each year. The IRS penalty for failing to take an RMD equals 50% of the RMD amount that is not withdrawn.[9]

If you turned 70½ in 2016, you can postpone your initial RMD from an account until April 1, 2017. The downside of that is that you will have to take two RMDs this year, with both RMDs being taxable events – you will have to make your 2016 tax year RMD by April 1, 2017 and your 2017 tax year RMD by December 31, 2017.[9]

Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your adjusted gross income, plus any non-taxable interest income you earn, plus 50% of your Social Security income surpasses a certain level, then some Social Security benefits become taxable. Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers.[10]

Lastly, should you make 13 mortgage payments this year? If your house is underwater, this makes no sense – and you could argue that those dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January 2018 mortgage payment in December 2017. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

Talk with a qualified financial or tax professional today. Vow to focus on being healthy and wealthy in 2017.

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