'Tis the Season: Year-End Tax and Financial Planning

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As 2016 draws to a close, there's much to reflect on and much to plan for in the new year, including tax season. December's Wealth Management Insights outlines a few key points to keep in mind as you delve into tax and financial planning for 2017.

Tax planning isn't a one-time event – it's a thoughtful, rolling process. Keep these details in mind as you make important decisions about your 2017 taxes.

*– **Tim Steffen***
Director of Financial Planning

What you should know:

1. Keep an eye on the calendar and plan around key dates.

- Remember that any income received or expenses paid by December 31 will be reflected on your 2016 tax return. This includes capital gains, charitable contributions and retirement plan withdrawals.
- The 2017 deadline to file your 2016 tax return is April 18 – a few days later than usual due to weekend dates and several statewide legal holidays. This later due date gives taxpayers a few extra days to make final payments.
- You can also make 2016 contributions to your IRA or Roth IRA until April 18, 2017. Be sure to review contribution and deduction limits to ensure you're taking advantage of this opportunity to save for your retirement.

2. A major life change can have major tax implications.

- Retirement often means newfound free time, but it may also bring a decrease in income – which, in turn, could trigger a fall into a lower tax bracket. This type of major fluctuation in income could impact your plans to defer income or accelerate deductions. For example, entering

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a new tax bracket could mean a lower marginal tax rate, in which case deferring income into 2017 might be appropriate for you.

- Newlyweds in 2016 will be filing as married taxpayers this year, and the tax impact of marriage largely depends on a couple's income. If there's a significant difference in a couple's incomes, filing jointly may result in a lower total tax cost than before marriage. However, spouses with comparable incomes might encounter the "marriage penalty" – an increased tax liability over what they paid when filing as single taxpayers. Couples should be prepared for this potential tax increase.
- If you moved to a new state in 2016, you may need to file part-year returns in both your prior and current state of residence. If you relocated for a job, you may be able to deduct a portion of your moving costs if you meet certain time and distance requirements. Consult IRS guidelines for more information.

3. While you're making plans, take the opportunity to review your financial plan and make important updates.

- Review your investment asset allocation. A change in goals, time horizon or market volatility could trigger a need to rebalance.
- Create a list of your critical financial documents and where they can be found in case of emergency. Include account numbers, contact names and pertinent phone numbers. Keep this list in a safe location, but be sure it's accessible to the appropriate individuals if the need arises.
- Revisit your estate documents and beneficiary designations to ensure they are still appropriate. It's good to do this on a periodic basis, and it's especially important if you've experienced a change in marital status, births, deaths, personal net worth or state of residence.

What you should do now:

December is a busy time of year for a myriad of reasons, but careful planning could result in meaningful savings – and peace of mind – during the 2017 tax season and beyond. Together with your tax advisor, your Baird Financial Advisor can help you identify and implement the right year-end tax and financial planning strategies for your unique situation. ■