Tax Moves to Consider in Summer

Don Akridge, MBA, CFP®, CPA/PFS
U.S. Marine Corps Veteran – Emory University Alumnus

Now is a good time to think about a few financial matters, **making changes earlier rather than later.** If you own a business, earn a good deal of investment income, are recently married or divorced, or have a Flexible Savings Account (FSA), you may want to think about making some tax moves now rather than in December or April.

Do you now need to pay estimated income tax? If you are newly self-employed or are really starting to see significant passive income, you may need to quickly acquaint yourself with Form 1040-ES and the quarterly deadlines. Every year, estimated tax payments to the Internal Revenue Service are due on or before the following dates: January 15, April 15, June 15, and September 15. (These deadlines are adjusted if a due date falls on a weekend or holiday.) It might seem simple just to make four consistent payments per year, but your business income may be inconsistent. If it is, and you fail to adjust your estimated tax payment per quarter, you may be setting yourself up for a tax penalty. So, confer with your tax professional about this.[1]

Has your household size changed? That calls for a look at your pre-tax withholding. No doubt you would like to take home more money now rather than wait to receive it in the form of a tax refund later. This past April, the I.R.S. said that the average federal tax refund was $2,864 – the rough equivalent of a month's salary for many people. Adjusting the withholding on your W-4 may bring you more take-home pay. Ideally, you would adjust it so that you end up owing no tax and receiving no refund.[2]

Think about how you could use your FSA dollars before the end of the year. The Tax Cuts & Jobs Act changed the rules for Flexible Spending Accounts (FSAs). The I.R.S. now permits an employer to let an employee carry up to $500 in FSA funds forward into the next calendar year. Alternately, the employer can allow the FSA accountholder extra time to use FSA funds from the prior calendar year (up to 2.5 months). Companies do not have to allow either choice, however. If no grace period or carry-forward is permitted at your workplace, you will want to spend 100 percent of your FSA funds in 2019, for you will lose those FSA dollars when 2020 begins.[3]

You could help your tax situation by contributing to certain retirement accounts. IRAs and non-Roth workplace retirement plans are funded with pre-tax dollars. By directing money into these retirement savings vehicles, you position yourself for federal tax savings in the year of the contribution. If you make the maximum traditional IRA contribution of $6,000 in 2019, and you are in the 24 percent tax bracket, that translates to a $1,440 federal tax deduction for 2019.[4]

While Summer may seem far from April, this is an excellent time to think about tax-saving possibilities. You and your tax professional have plenty of time to explore the options.

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Citations.

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