9 Reasons You Should Consult With Your CPA Before Year-End

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While the national focus has been on uncertainty around tax overhaul, there are many individual tax-planning opportunities you should consider before year-end to ensure you are getting the best deal while staying compliant.

Although much of the attention regarding tax planning has been focused on whether or not we will see tax law changes this year, there are still plenty of tax-planning opportunities you need to pay attention to, particularly if there has been a change in your financial situation during the year. Good tax planning enables you to stay compliant while positioning yourself to pay as little in taxes as possible.

Reaching out to your CPA regarding specific tax planning ideas at the end of the year is always smart. Here are some common areas to consider regarding your tax situation as the year is wrapping up.

1. Compare income year over year

And don't forget about making quarterly estimated tax payments when newly retired

Is this year shaping up to be better, worse, or similar to last year? Depending on the answer, you may need to adjust your withholdings and estimated tax payments, particularly if you are newly retired. You may need to make additional quarterly tax payments if you owe more in taxes than the previous year, or risk a penalty for not paying enough taxes, unless you are otherwise in the "safe harbor." Additionally, you should pay state property taxes before year-end to get a federal tax deduction.

2. Any big sales this year from stock accounts?

Or has there been a rebalancing in taxable accounts?

If so, keep an eye on the tax bill. This includes inherited investment accounts; you receive tax-free, but any subsequent sales are taxed. Don't wait until the end of the year to calculate the taxable gains and remember to consider harvesting losses to offset those gains.

3. Have you received an inheritance?

Although the initial bequest is typically tax-free to the heir, any subsequent sales are taxed on your tax return. And, beware if you are named the beneficiary of an IRA, annuity or company retirement plan, where the rules vary dramatically. You could be forced to take withdrawals as the original owner was, and taxed at her highest tax bracket. However, if you inherit a Roth IRA, payouts are tax-free.

4. Have you bought, sold, or refinanced a house?

The profits from a sale of a principle residence are typically tax-free (up to $500,000 for a married couple), but there are some wrinkles, so make sure you qualify. In addition, if you paid off a mortgage on which you were deducting points year by year, you can deduct the remaining balance this year.

And consider if you had relocating costs, which can be tax-deductible, or whether you refinanced, which can generate amortization of points.

5. Visit your CPA before making any charitable donations

To confirm that you are taking advantage of all tax breaks available while simultaneously not incurring any penalties, make sure you see your CPA when considering charitable donations. If you are over age 70 ½, you can save money by transferring required minimum distribution (RMD) directly to a qualified charity, thus avoiding paying taxes on the withdrawal. The result would be a reduction in your taxable income. (But also be aware that the donation maximum is $100,000 and you will not qualify for a charitable deduction when filing federal income taxes). All things considered, it is generally beneficial to make the contribution directly to the charity, rather than take the deduction.

6. Calling all recently married couples!

And those who are newly widowed or divorced

Has there been a marriage, death or divorce? If you got married this year, you should consider how tax rates can increase for a two-earner couple or decrease for a single-earner couple. Divorce also requires a reexamination of tax status. This means that there can be an increase in deductions (such as with alimony payments), which could be beneficial, so make sure to look at those.

On the flip side, alimony needs to be reported as income for the recipient. And also make sure to review who is able to deduct the dependents. For a newly married couple, if one spouse is jobless, the unemployed spouse may be able to fund an IRA (despite his unemployed status) if the other spouse is working.

If you have been widowed this year, you can still file jointly for 2017 (next year you are required to file "single"), but you need to consider possible decreases of income and potential decreases in estimated tax payments. While filing jointly can increase the deductions you are entitled to, make sure to watch out for any possible negative repercussions. You should also review all sources of income with your advisor to ensure that you get what you are entitled to from the estate and that you understand the distribution rules.

7. Special tips for parents of college students and recent grads

The American Opportunity Tax Credit gives parents of college students a tax break worth up to $2,500 of tuition per eligible student for the first four years of college. And recent mid-year grads (or anyone who will not work more than 245 days this year) can request their employer use a part-year method to pay them, which will result in employers' withholding less money, leaving more for you.

8. Newly retired? Take control of your tax bracket

Discuss "tax-bracket control" with your CPA to ensure that you remain within the 15% tax bracket, if possible. To do this, you will need to "fill" every year with taxable income up to $96,700 (for joint filers) regardless of whether you currently need that income. This ensures that you have converted pre-tax dollars (aka qualified money) into investment accounts with paid taxes (aka non-qualified money) at a lower tax rate.

However, if you need more than $96,700 in income, you should consider doing one or more of the following: withdrawing cash (tax-free) through loans on a universal life insurance policy (although this will deplete the policy's value), taking out a home equity line of credit with tax deductible interest, or deferring Social Security benefits to reduce long-term tax costs.

9. Consider how the proposed GOP tax plan could affect your tax situation

The tax break for state and local income and property taxes is a key target for lawmakers who are looking to raise revenue (especially from those wealthier taxpayers who live in high-tax states, like New York, New Jersey, and California). There are also additional proposed changes to the Code in regard to tax breaks for home ownership. Although the home mortgage interest deduction for primary homes doesn't look like it is in jeopardy, tax policy might be changing regarding second homes… and it won't be for the better. You should see your CPA to confirm state deductions and that what you pay on your first (or second) home won't be changed by Trump's proposals.

In short, although Trump has not released his new tax code yet, there are plenty of opportunities under the existing tax code for tax planning and savings, so continued vigilance is definitely in order!

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