Money Talks

November 2022

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We are getting near the end of the year with the approaching holidays and a change in the weather. With the end of the calendar year, we are facing the end of the tax year for most taxpayers. Here are some things to consider as you weight potential tax moves before the end of the year.

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so do not procrastinate. Consider opportunities to defer income to 2023, 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 in order to postpone payment of tax on income until next year.

Look for chances to accelerate deductions into the current tax year. If you itemize deductions, making payment for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return. If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income, depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

If it looks as though you are going to owe federal income tax for the year, consider increasing your withholding on Form W-4 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 throughout the year instead of when the dollars are actually taken from your paycheck.

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan, such as a 401(k), can help reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023 to make 2022 IRA contributions. (Roth contributions are not deductible, but qualified Roth distribution are not taxable.)

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized

net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income or carried forward to reduce your taxes in future years.