CORNERSTONE WEALTH MANAGEMENT

Tax Moves to Consider in Summer

Now is a good time to think about a few financial matters.

Provided by Cornerstone Wealth Management

Consider making tax moves earlier rather than later. If you own a business, earn significant investment income, are recently married or divorced, or have a Flexible Savings Account (FSA), you may want to work on your income tax strategy now rather than in December or April.

Do you need to pay estimated income tax? If you are newly retired or newly self-employed, you will want to be familiar with Form 1040-ES and the quarterly deadlines. Each 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 to the next available workday if a due date falls on a weekend or holiday.)[1]

Ideally, you would just make four equal payments per year – but if you are a small business owner, your business income could vary per quarter or per season. The risk here is that you will underpay and set yourself up for a tax penalty. Confer with your tax professional to see if you should adjust your estimated tax payments for this or that quarter.[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. 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. You can adjust it at the I.R.S. Tax Withholding webpage, or via a paper W-4 form.[2]

Think about how you could use your FSA dollars before the end of the year. The Department of the Treasury has modified 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% of your FSA funds this year.[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 are able to make the maximum traditional IRA contribution of $6,000 in 2019, and you are in the 24% tax bracket, that will allow you to claim a $1,440 federal tax deduction for 2019.[4]

While next April may seem far off, this is an excellent time to think about tax-saving possibilities. You have plenty of time to explore your options.

Citations.

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