Financial Wellness

What your last tax return can tell you about your finances

Just as coaches look back at their prior season to identify their team's strengths and weaknesses, it can be helpful for taxpayers to review their most recent tax return to assess what they did right and what they did wrong when it came to their taxes and overall finances. Your federal income tax return might provide valuable insights in the following areas.

Your investments

If you are long-term investor and your return shows multiple investment sales and the related gains and losses within a compressed time frame, it may indicate that you are trading too frequently. You should consider the fees associated with excessive trading as well as whether your portfolio is structured in a way that meets your goals and your tolerance for risk.

You may have a capital loss carryforward that represents an unused loss you are carrying over to offset future capital gains. If you intend to rebalance your taxable account investments, see if there will be taxable capital gains that can be offset by the loss you are carrying forward.

Consider municipal bonds as a way to reduce taxes. The interest you earn on municipal bonds is generally exempt from federal income taxes and possibly state and local income taxes. Just be sure to carefully review the credit ratings of any municipals you may be thinking about buying. While the higher yields offered by bonds with lower credit ratings may initially appear very attractive, these bonds typically carry a higher risk of default.

Your retirement strategies

Increase the amount you contribute to your tax-favored retirement plan (limits apply) and you could potentially lower your current year's income tax liability. If you are taking distributions from a retirement plan still held with a former employer, you may want to consider a rollover into one account to consolidate accounts and simplify your recordkeeping. Consider consolidating accounts also if you have multiple individual retirement accounts (IRAs).

Business-related tax saving opportunities

If you are self-employed as a sole proprietor and filed a Schedule C, check to see if a different business form could make sense. For example, an S corporation can limit a business owner's personal liability. Consider establishing a retirement plan if you do not already have one in place. A retirement plan established through your business allows you to save for your future financial security and deduct your contributions. You may also be able to take advantage of some income-shifting opportunities by employing family members in the business.

Charitable contributions

If you support various charities with financial gifts, it may make sense to donate appreciated publicly traded stock to charity instead of cash. You can deduct the full fair market value of appreciated securities you have held for more than one year as an itemized deduction without having to pay capital gains tax on the appreciation.

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You could also look into establishing a charitable remainder trust. Doing so allows you to make a gift to charity, retain an income from the donated assets for life, and possibly claim a partial charitable deduction based on the value of the charitable interest in the trust.

Other considerations

If you have experienced a major life change, such as marriage or divorce, that has impacted your filing status, make certain that any change is reflected when you file this year's tax return. Remember also that you should keep your beneficiary designations on your retirement accounts and insurance policies current so that they accurately reflect your present status. If you have children, you may want to check out several tax-advantaged college savings opportunities that are available. These opportunities can help you set money aside for their future education.

A review of your tax return and your investment transaction statements can help you identify areas where you may be able to lower the taxes you'll have to pay next year. Your financial and tax professionals will be able to assist you in that effort.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

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