Pocket of Money Personal Finance End of the Year Checklist

Checklist Actions

- ☐ Increase contributions to retirement accounts.
- ☐ Withdraw distributions from retirement accounts.
- ☐ Make charitable contributions.
- ☐ Review your financial snapshot.
- ☐ Review your estate plan.

Action Explanations

Personal Finance

I'll cover a few tips that will help you lower your tax burden for next year. Even though you have until April to file your taxes, only actions and transactions that take place before December 31st count. Figure out which apply to you and what you can fit in before December 31st.

1) Increase contributions to retirement accounts.
Try to max out your tax-deferred retirement accounts before the end of the year. If you're employed this will likely be a 401(k) or equivalent account. The maximum contribution is $18,000 or $24,000 if you're over 50 years old. The amount is higher for those who are 50 years old or older so that they can play catch up. It's literally called "catch-up contributions."

If you can't max out your contribution, at least contribute enough to receive your employee match. Check with your benefits department or HR department to determine if your company offers an employee match.

You can also contribute to your Traditional IRA (individual retirement account). Contributions made to your Traditional IRA are not taxed. However, you will pay taxes on withdrawals when it's time. The benefit is to get a tax break now and allow the money to grow tax-free. Once it's time to withdraw hopefully, you'll be in a lower tax bracket and won't have to pay as much in taxes when you withdraw your money.

If you're self-employed, outside of an IRA you may also have a solo 401(k), also called a one-participant 401(k) plan, then you have two options to contribute. You can do the employee type contributions up to $18,000 or $24,000 if you're older than 50. However, your business can also contribute. This is called profit sharing or employer contribution. The business can contribute 20% of your gross revenue if you're a sole proprietor or LLC. The business can contribute 25% of revenue if the business type is a corporation. You can do a mix of the contribution methods but the total cannot exceed $54,000. You can make tax-deferred contributions up until your business files taxes.

2) Withdraw distributions from retirement accounts.
Now if you're already retired, you don't want to give the government more of your retirement savings than necessary.

According to the IRS, when you're over 70 and a half years old, if you don't withdraw at least the minimum required amount then you'll be punished with a 50% penalty on the amount you should have withdrawn. Yep, the government can take half of the minimum required distribution (RMD) if you don't take it out. If you are the beneficiary of an IRA (meaning the person who originally set it up passed away and the account was left to you), you also have to take out the RMD.

If you have, I think any plan outside of a ROTH IRA, then this rule about the required minimum distribution applies.

3) Make charitable contributions.
If you've been considering donating that bag of clothes that you have in a closet or garage, or some other item that you aren't using anymore, then do so before December 31st.

Donating to charity is another great way to decrease your tax burden for the year. Be sure to get a receipt of acknowledgement for the donation that shows the monetary value. If your donation is greater than $250 then you definitely need that receipt. The IRS will want to see it. However, if your donation is less you can also use your bank statement or credit card receipt as proof.

Only organizations that have 501(c)3 status count towards a tax deduction. Ask the organization and they will let you know if they directly have the status or work with an umbrella organization that has the status. That works too. You can look up organizations through the IRS, GuideStar and Charity Navigator.

With all of the natural disasters that have been ravaging spots all over the globe, there are plenty of organizations and causes that would love your donation.

4) Review your financial snapshot.
Take time out to review your financial status and your goals. Pull out your list of financial goals. You know the one you made for New Year's resolutions or whatever time period where you reflect on where you want to be and do. Pull out that list and really ask yourself what progress did you make on your financial goals? Which did you successfully reach? What were your challenges?

Use the answers as you create a plan for the rest of the year and next year. When you review your finances, take a look at how much debt you have and the strategy to pay them off. Review your savings goals and how much money you really have to put towards them. Determine should you be aggressively paying down debt or aggressively saving. If you don't have at least $500-$2,000 in your emergency fund then the answer is you should be aggressively saving money.

Review your investment strategy. Are your goals still the same as when you created the strategy? If the answer is no then you need to first solidify your goals and then tweak the strategy as needed. Speak to your financial advisor.

Once you’ve reviewed your financial data, created

- An annual budget that shows your expected monthly budget for each month next year
- An optimized debt elimination strategy
- An optimized saving strategy
- A clear investment strategy (if your finances are ready for you to begin investing)

5) Review your estate plan.

The next thing is to review your estate plan. If you’re thinking, I don’t have an estate. I don’t have a house or any real estate property. Well your estate is not just real estate. Your estate is basically just everything you own.

Another common misconception is that only retired or older people need to do estate planning. Nope, as long as you own things then you can and probably should do estate planning. Your estate plan addresses things such as

- how your things should be distributed,
- what should happen if you become disabled or pass away

These questions are addressed in documents and policies such as: a will, life insurance policy, and beneficiaries listed on retirement accounts.

Taking these actions will help you assess some of the key areas for your personal finances and put you in a better position for following year. You'll get some clarity on what you need to do to reach your goals.

Complete the exercise on the next page.

End of the Year Goals

Maximize the time you have before the end of the year. Write the goals you want to accomplish so you're in a good position with your finances before the new year.

1) ____

2) ____

3) ____

Actions. Write out the actions you need to take and by when to achieve your goals.

Goal	Action	Deadline