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YEAR END PLANNING CAN REDUCE TAXES

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Finance by Patricia Kummer CFP®

Many taxpayers are still getting used to the tax law changes from 2013. Tax brackets are rising slightly for 2016, indexed up 0.4 percent. Medicare tax has a 0.9 percent kicker on incomes over $250,000 and those in the highest brackets get to pay an extra 3.8 percent on investment returns. All in all, taxes have been on the rise. Therefore it is important to take every advantage to reduce your tax bill for 2016. Here are a few last minute things you can do that will help reduce your tax liability.

Consider funding an IRA account. Most employees who have a 401k plan have forgotten they might also be eligible for an IRA as well. If you are Married Filing Jointly and only one spouse has a 401k plan, the other spouse may be eligible for a $5,500 deduction or $6,500 if over the age of 50. Check the IRS limits for Adjusted Gross Incomes that range from $184,000 to $194,000. Those with two qualified employer plans with incomes under $98,000 can both write off the full contribution. This may be enough to reduce other factors, such as eligibility for the education tax credits. It is not a good idea to over fund an IRA where you don't get the tax deduction. There is no reason to be subject to IRS restrictions when there is no deduction on after-tax deposits. Consider funding a Roth IRA instead.

Self-employed individuals may be eligible for a SEP (Simplified Employee Pension). These limits can be substantially higher than an IRA based on business or consulting income. Most plans allow for deductible contributions similar to 401k limits - which for 2016 are $18,000 with an over age 50 catch up provision of another $6,000. For higher income earners, you may also be eligible for a profit sharing contribution up to 25 percent of your business profit up to $59,000, depending on your business structure.

It is crucial to get with your tax or financial advisor immediately to see what plans and limits you are eligible for.

Consider maximizing your Health Savings Accounts for the year if they have not already been funded. You may be eligible if you had a high deductible health insurance plan starting no later than December 1st. An individual can contribute a tax-deductible amount of $3,350 with a $1,000 catch up provision for anyone over age 55 by December 31. Households with one spouse on family coverage can contribute $6,750 plus the catch up for over age 55.

Patricia Kummer, CFP® ◆ Certified Financial Planner™ ◆ 8871 Ridgeline Boulevard, Suite 100 ◆ Highlands Ranch, Colorado 80129

TEL 303-470-1209 ◆ FAX 303-470-0621 ◆ 1-877-767-0763 ◆ www.kummerfinancial.com

The penalty for not having health insurance increased this year to $695 per person or two percent of income. You can apply during open enrollment this month to avoid this penalty in 2017 as well.

You can fund college savings plans that are eligible for the state income tax deduction for children or grandchildren through www.collegeinvest.org.

If you pay quarterly estimated tax payments, consider paying your fourth quarter state taxes before year end. Then you will be able to deduct it on your Schedule A next April.

To help reduce unwanted taxable investment income, meet with your financial advisor for tax loss harvesting and to structure your investments to be tax-efficient. After all, the goal is to keep more of your hard-earned dollars working for you. Plan to take advantage of every deduction you are eligible for and make estimated tax payments on time. Then you won't have to pay any more than necessary.

Patricia Kummer has been an independent Certified Financial Planner for 30 years and is President of Kummer Financial Strategies, Inc., a Registered Investment Advisor in Highlands Ranch. Kummer Financial is a 6 year 5280 Top Advisor. Please visit www.kummerfinancial.com for more information. Any material discussed is meant for informational purposes only and not a substitute for individual advice.