

## 9 of the most important year-end money moves



By [Jeanne Sahadi](#), [CNN Business](#)

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A common New Year's resolution is to be better with money. But you will miss some opportunities if you wait until January 1 to get started.

With just a couple of weeks left to go in 2021, there are some deadline-driven financial moves you might want to make before the end of the year.

### 1. Donate to your favorite cause

There is no shortage of good causes -- or abject need. And for the second year in a row, there will be an added tax incentive to donate money.

Normally, only tax filers who itemize deductions can deduct their charitable contributions. But the IRS once again is allowing those who take the standard deduction -- which is the majority of tax filers -- to deduct up to \$300 in cash to qualifying charities (\$600 if married filing jointly).

The money must be donated by December 31 to count for the 2021 tax year.

### 2. Reduce your capital gains tax bite

If you sold stock in 2021 that appreciated in value from the time you bought it, you will owe tax on the capital gains. But you can offset that tax dollar-for-dollar if you sell other stock at a loss this year.

And if your losses exceed your gains, you can use the excess to offset your 2021 taxable income up to \$3,000. Any losses beyond that may be carried forward for use in future tax years.

Let's say you have \$10,000 in gains and \$15,000 in losses. You can offset all your gains, reduce your taxable income by \$3,000 and carry forward \$2,000 in losses to next year.

If all you had this year were capital losses, you can still use \$3,000 of them to offset your taxable income and carry forward the rest.

In either case, "beware the wash-sale rule," said Michael D'Addio, a principal at tax and advisory firm Marcum LLP. Under that rule, you are not allowed to buy a substantially similar security to the one you just sold at a loss for 30 days.

"So you'll have to wait 30 days [before repositioning your portfolio]," he said.

### **3. Bolster your retirement savings**

If you haven't maxed out your 401(k) at work yet, see if you can boost your pre-tax contribution on your last paycheck before December 31. Doing so will reduce your 2021 tax bill and add more to your nest egg.

You can donate up to \$19,500 (\$26,000 if you're 50 or older).

The same is true if you're eligible to contribute to a deductible IRA, into which you may contribute up to \$6,000 for 2021 (\$7,000 if you're at least 50).

Or if you expect you'll be in a higher tax bracket in the years ahead or want more tax diversity for your nest egg, now may be a good time to contribute to a Roth IRA if you're eligible -- your contributions aren't deductible but they will be allowed to both grow tax free and be withdrawn tax free in retirement or, in some instances, before.

If you aren't able to make your IRA contributions by the end of the year, you actually may make them up until April 15, 2022 to count for the 2021 tax year.

If, however, you make too much money to qualify for a Roth, and you can only make after-tax contributions to a non-deductible IRA you may want to take advantage of a "backdoor" approach to creating a Roth IRA by converting your after-tax savings no later than December 31.

The move may make sense now because there are provisions in the Build Back Better bill currently under consideration in Congress that could prohibit such a conversion starting next year. The same holds true if you have after-tax savings in your workplace retirement plan and have the option of putting them in a Roth 401(k).

"Roth conversions could be considered this year if you fear the right to convert will go away," said Mark Luscombe, principal analyst for tax publisher Wolters Kluwer Tax & Accounting.

#### **4. Retirees, make your required IRA withdrawals**

When you turn 72 you must start taking required minimum distributions from your IRAs. Last year, that requirement was waived because of the pandemic, but it was reinstated for 2021. "People may forget that because there wasn't a requirement last year," D'Addio said.

If you don't take your required minimum distribution this year, you could be subject to a 50% penalty. Say you're supposed to withdraw \$50,000 but fail to do so by December 31. You might owe \$25,000 in penalties plus ordinary income tax on the \$50,000.

#### **5. Reduce the taxes you owe on required minimum distributions**

You can lower the taxes you'll owe on your required minimum distribution if you directly donate a portion to a charity. You're allowed to donate up to \$100,000.

Say you normally take the standard deduction, and you plan to donate \$5,000 to charity. You can only deduct \$300 (\$600 if you're married) if you send the charity money yourself. But if you specify that \$5,000 of your required minimum distribution be sent directly to the organization you will reduce your taxable income by that amount. In other words, if your required minimum distribution is \$50,000 for this year, you will only owe income tax on \$45,000.

Making a donation this way is known as a Qualified Charitable Distribution.

#### **6. Pay deferred taxes if you're self-employed**

Last year, those who were self-employed were allowed to defer the employer share of their FICA taxes for Social Security and Medicare both for themselves and for any employees they may have had.

But they must pay back half of those deferred taxes by December 31, D'Addio said. "You have two weeks to pay that."

Failing to do so will result in a penalty.

#### **7. Make a 529 contribution**

While there is no federal tax benefit to contributing to a 529 college savings account, your state may offer a tax deduction.

There may not be a technical limit on how much you may put in, but your state may only offer a deduction up to a certain amount. "So that may be a practical limit," D'Addio said.

## **8. Use all your Flexible Spending Account money**

If you've set aside pre-tax wages to go into a flexible spending account, or FSA, you have until December 31 to spend down the money on qualified expenses -- which include many things that your health, vision or dental insurance policies won't cover, including many drug store purchases. (Check the rules of your specific FSA plan to see what it covers.)

Typically if you don't spend your FSA money by year-end, you'll lose it. But your employer may have made an exception for 2021, since the IRS is allowing employers flexibility in determining whether you can carry over unused FSA amounts to the next year and whether to extend the period in which you may incur claims.

The same applies if you have been contributing pre-tax wages to a dependent care account.

## **9. See if the doctor is in**

If you've already met your annual deductible on your health insurance policy, you might try to sneak in that doctor's visit or medical procedure you've had on your to-do list before ringing in 2022.

It will be cheaper than waiting until January or February, not only because your doctor's fees or the cost of lab tests may go up but you'll also have to start paying down a brand new deductible before getting anything back from insurance.