



Why You Should Think About Your 2016 Income Tax Now

6 important lessons from last year's taxes

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Now that a few weeks have passed since you filed your 2015 income tax return, it can be tempting to put paying Uncle Sam out of your mind until next year. Before stashing the file, however, taking another look at your returns could offer some important tax planning lessons that can make tax time next year a less stressful (and less costly) process.

“When everything is fresh in your mind is really the time to plan for 2016,” says Gil Charney, director of the Tax Institute at H&R Block.

Using your 2015 income tax returns as a starting place, here are six smart tax moves to consider right now:

1. Adjust your withholding. While it may have been fun to figure out what to do with your big income tax refund (the average taxpayer's was [more than \\$2,700](#) in 2015), lowering your withholding will give you access to more of your hard-earned money throughout the year. Alternatively, if you got slammed with an unexpectedly high tax bill, you may want to increase your withholding. Request a W-4 form from your human resources department to make the change.

If you're in the midst of any big life changes that could affect your tax bill, such as [getting married](#), [buying a house](#), or [having a baby](#), you may also need to change your withholding. "Many people fill out their W-4 when they start working with an employer, and then they don't update it to reflect changes in their income or family situation years later," says New York CPA Alan Straus.

2. Get organized. Whether you filed your income tax returns on your own or worked with an accountant, you probably spent serious time hunting down documentation and records at tax time. Instead of scrambling again next year, spend some time now starting a 2016 tax file for things like receipts for [charitable donations](#) or business expenses.

3. Increase your contributions to tax-advantaged accounts. Tax-deferred contributions to [retirement accounts](#) not only help secure your financial future, but they also provide an important opportunity to lower your taxable income. This year you can stash up to \$18,000 (\$24,000 for those age 50 or older) in a 401(k) tax-free. If you're not maxing out your contributions, see if you can increase the amount that you put away each month, making sure to save at least enough to get the maximum employer match. "For high earners, deferring the maximum amount could push you into a lower tax bracket," says Susan Allen, a senior manager with the American Institute of Certified Public Accountants.

4. Make sure your savings are working for you. You know that most savings accounts today offer laughably low rates—0.13 percent is typical for bank savings accounts, and 0.23 percent for one-year CDs but you may not realize how paltry they are until you total it up at tax time. Use that as motivation to shop around to make sure that you're getting a [competitive savings rate](#)—and consider whether you could shift some of those assets into other investments. If you have more than about six months' worth of expenses sitting in a savings account, you may want to discuss with a planner whether there's a better place to put some of that money, given your financial goals and risk tolerance.

5. Consider bunching medical expenses this year. Medical expenses

must total more than 10 percent of your adjusted gross income in order to qualify for deductions. (For individuals age 65 or older—or households in which one spouse is 65 or older—the threshold this year is 7.5 percent of AGI.) That's a high threshold, especially for healthy families, but if you've already had a big medical expense this year or anticipate one, you might consider scheduling other pricey medical procedures (think [dental work](#) and elective surgery), so that you can write them off this year on your income tax as well. You'll also want to save receipts for all your out-of-pocket spending on prescriptions and doctor's visits this year. Check [IRS publication 502](#) to make sure the medical expense qualifies. Cosmetic procedures and most nonprescription medications, for instance, don't.

6. Lock in some capital losses. If you ended up with a big capital gains tax bill last year, it might make sense to harvest some tax losses now to offset future gains. Given the recent market gyrations, you may have stocks that you can sell to lock in a loss while rebalancing your portfolio. Or, you have enough time left in the year to wait 30 days and then repurchase the same stock. “However, you need to stay invested,” says California-based CPA Larry Pon. “Taking a loss and then leaving your money in cash will not help with your investment goals.”

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