Tax filing time is a good time to look ahead to next year | Expert column

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With tax time upon us, one message we keep hearing is that you should file as early as possible.

You may recall that last year there were numerous delays in getting tax refunds after the pandemic caught everyone, including the IRS, off guard. If you have a refund coming, the sooner you file, the sooner that refund will make its way into your bank account.

If you're like most Americans, you also want to do everything you can to reduce your overall tax bill. We all understand that taxes are needed to run the government, but there's no need for you as an individual to pay more than you owe.

Let's face it, though. It's a little late in the game to put into play most steps that can help you reduce your 2020 tax bill. You really need to have done whatever you were going to do before the end of the tax year.

But now is definitely a good time to start thinking about ways you can improve your tax situation for next year. Here are a few areas to consider or understand as you do so:

Funding tax-preferenced accounts. One way to save on taxes is by putting money in a variety of tax-preferenced savings accounts such as an IRA, a 401(k), and others. Depending on the account, you can deduct your contribution each year, defer paying taxes on growth, or take withdrawals tax free. In at least one case — health savings accounts — you can do all three. Since an HSA gives you that triple whammy of tax avoidance, it's definitely something you want to consider. although there are eligibility requirements you need to meet. Also, unlike retirement accounts, an HSA can only be used for medical expenses. With a traditional IRA or a Roth IRA, you don't get that triple whammy that comes with an HSA, but there are still significant tax advantages. With a traditional IRA, you don't pay taxes on your contributions, and you defer taxes on the account's growth. You do pay taxes on withdrawals you make in retirement. A Roth IRA has different advantages. You can't deduct your contributions now, but your money grows tax free and you aren't taxed when you make withdrawals.

Using a 529 for K-12 private education. Many people are familiar with 529 plans, but often they think of these solely as a way to save for a child's college education. But a 529 can also be used to pay for private school in elementary and high school if you so desire. The big tax advantage with a 529 is that you don't pay federal income taxes on the account's growth, but you must spend the money on qualified educational expenses and nothing else. That last point is important to remember and understand because if you use the money for other reasons, you will pay taxes on that withdrawal and you will also pay a penalty. A 529 account is definitely something to consider if you have children or grandchildren and want a tax-efficient way to save either for K-12 or college educations.

Making charitable contributions. Charitable contributions are a powerful tool for reducing your tax bill, and they come with the added bonus of allowing you to make a positive impact in your community or the world. What could be better? Through charitable contributions, you can reduce your income tax, your capital gains tax, and your estate tax.

Some people view this in the most straightforward way — you choose a worthy cause that qualifies under the tax rules, and you write a check. But there are other tax-advantaged ways to approach charitable giving. Here's just one of many examples: You can establish a donor-advised fund, which is a personal charitable account opened in the name of one or more donors and held in custody by a nonprofit organization. How does that work? Let's say you sell a stock and, instead of paying the capital gains tax, you place the proceeds in a donor-advised fund. You can claim the full amount as a charitable deduction, but you don't have to donate the money all at once. The money remains in the fund and can be donated in small amounts over a period of years. All the while, it is drawing interest.

These are just a few examples of strategies you can consider as you seek ways to reduce that tax bill. Certainly, all of this is complicated, but your financial professional should be able to help you work your way through the IRS weeds and find what works best for you and your personal situation.

Your future tax-filing self will thank you.

Jim Braun, president of ***Tri-State Retirement,*** *helps clients optimize Social Security, reduce Medicare costs, and create retirement income strategies that will last the rest of their lives.*