Take These Tax Steps Before the End of 2024 to Maximize Your Tax Refund in 2025

The 2025 tax deadline is months away, but careful planning now could help get you more money back from the IRS.

These tax strategies could help you reduce your tax burden, but you'll need to act soon, as some steps require preparation to complete before Dec. 31, 2024.

1. Double-check your paycheck for tax withholding

The US has a "pay as you go" model of income tax, which is why your employer withholds money from your paycheck and freelancers have to pay estimated taxes quarterly. Failure to pay enough taxes during the year can result in a penalty at tax time.

Your employer determines the amount withheld from your paycheck by your W-4 tax form, which includes your filing status and estimated tax deductions. The end of the year is a great time to review your W-4 and current withholding to decide if you want to change it.

The IRS' Tax Withholding Estimator tool lets you estimate your current withholding and projected tax refund in order to adjust your W-4 form. You can submit an updated W-4 form to your company at any time, and your employer must institute your changes by the start of the first payroll period, which is 30 days or longer after your W-4 submission.

2. Sell any losing stocks to offset your capital gains

It's been a huge year for stocks in 2024 -- the S&P 500 index is up a whopping 30% -- but there are still plenty of stocks that lost money this year. One bright spot of potential stock losses is the opportunity to practice "tax loss harvesting."

This tax strategy works by realizing losses or selling your stocks and assets that have lost value, to offset other capital gains you may have earned. For example, if you made $25,000 in profit on a real-estate sale in 2024 but lost big on an investment in a struggling stock (like Intel), you can sell your securities and subtract the financial loss of that investment from your capital gains. If you have $25,000 in stock losses, you'll offset the $25,000 you earned from the real-estate sale to eliminate that tax burden.

Capital gains include any income that you earn through the sale of assets, such as stocks, real estate, cars, furnishings or any other tangible properties, but you must actually sell assets to realize losses and offset gains.

3. Maximize contributions to your retirement account

Retirement funds like 401(k) accounts and IRAs provide one of the most productive tax deductions because you can reduce your tax bill while building a nest egg for the future. If you can afford it, max out your possible contributions to any retirement account before the end of the year.

The deduction limit for 401(k) contributions for 2024 taxes is $23,000, and that does **not** count employer contributions. A worker in the 24% tax bracket could knock almost $5,000 off their tax bill just by saving money for the future. Crank up the percentage of your regular 401(k) contribution for the last pay periods of 2024 to make the most of your potential retirement deductions.

If you're over 50, you can contribute more to your 401(k) with "catch up" contributions totaling $7,500 per year (or $30,000 total) in 2024, **if** permitted by your 401(k) plan. You don't even need to be "behind" on your 401(k) contributions to make additional deferrals to your account.

For IRAs, the maximum amount of tax-deductible contributions for 2024 is $7,000, or $8,000 if you are over 50. The amount of money

that you can deduct from your taxes depends on both your income and whether or not you have a work-provided retirement plan.

4. Make your home more energy efficient

Thanks to the Inflation Reduction Act of 2022, there are major incentives to making your home "greener" in 2024. The law boosted the amount of tax credits you can get for increasing your home's energy efficiency. For this tax year, the residential clean energy credit -- which gives money back for installing solar panels, geothermal heat pumps, fuel cells and battery storage -- is still at 30%.

Tax credits have more of an impact on your tax bill than deductions. While deductions lower your level of taxable income, tax credits directly reduce the amount of taxes that you owe to the IRS.

Installing a solar energy system, wind turbine or geothermal heat pump can now give you 30% of the cost back if completed before Jan. 1, 2025. In California, the average cost of solar installation is $11,563. If you made that average improvement to your home in 2024, you'd knock $3,467 off your taxes.

Tax credits for energy improvements aren't limited to alternative energy. Simply installing new, qualified Energy Star-certified furnaces and boilers can reap tax credits too, although smaller than for alternative energy. Be sure to check the manufacturer's tax certification statement, as not every Energy Star-certified product is eligible.

5. Do you want to defer an end-of-year bonus or payment?

It's not always easy to postpone payment from your employer, but if you receive an end-of-year bonus and are looking to decrease your taxable income as much as possible this year, consider asking your company to pay you in January.

Similarly, if you're a freelancer or contractor and you want to reduce your taxable income for 2024, consider delaying your invoices until December so that you don't get paid until January. You're only postponing the payment of income taxes on that money until your 2025 taxes are due, so you'll need to strategize on whether this year or next would be better for earning that money.

6. Donate to charities now if you want more deductions

If you itemize your tax deductions and like to contribute financially to the causes and groups that you support, do it before the end of the year to best reduce your taxable income for 2024. Most taxpayers can generally deduct charitable donations up to 50% of their taxable income.

Before donating to anyone, make sure that your contribution will be tax deductible by searching the IRS' tax-exempt organization database. All valid charities and nonprofits will also have a tax identification number that identifies them as tax-exempt.

7. Check required minimum distributions from IRAs and 401(k) accounts

US tax law requires that Americans start receiving distributions from their personal or work-provided retirement accounts when they reach a certain age. Starting in 2023, the SECURE 2.0 Act raises that age from 72 to 73, for those who turned 72 after Dec. 31, 2022.

These distributions are mandatory for 401(k) plans, traditional IRAs, profit-sharing plans and pensions. They're **not** required for Roth IRAs while the owner is alive.

Required minimum distributions, or RMDs, are calculated by adding up all of the money in your retirement accounts and dividing by an IRS life expectancy factor. The Securities and Exchange Commission provides a simple calculator that incorporates the latest IRS life expectancy tables.

While the administrator of your retirement plan is required to follow tax law for RMDs, it's up to you to make sure you're getting the right amount. If you don't meet the required amount for your RMD, you'll face the harshest IRS penalty around. The excise tax on RMD failures has been 50% in the past, but the SECURE 2.0 Act reduces that penalty to 25%, and even further to 10% if the RMD is corrected within two years.

Still, if you were required to withdraw $20,000 in 2024 but only received $10,000, you could be on the hook for a $2,500 penalty. It's definitely worth double-checking your RMD for 2024 and withdrawing more money if required.

8. Combine your medical expenses into one year

Medical expenses can be a significant deduction for many taxpayers, but the IRS only allows you to deduct expenses that are in excess of 7.5% of your AGI. For example, if your AGI is $50,000, and you spent $5,000 on medical expenses, you can deduct $1,250 ($5,000 - ($50,000 x 7.5%)) from your taxable income.

For that reason, it can be advantageous to group all of your major medical expenses into one year. These expenses can include surgeries, preventative care, hospital visits, dental care, prescription medicine, glasses, hearing aids and mental health care like therapy, as well as transportation costs to and from providers.

If you're approaching 7.5% of AGI in medical expenses this year, consider making as many of your anticipated health-related purchases by the end of December. Get your teeth straightened, buy those new glasses or schedule that elective surgery by the end of 2024, and you'll maximize your medical deductions.

Similarly, if you're not approaching that 7.5% of the AGI threshold for medical expenses in 2024, hold off on any non-urgent health-related purchases until January when they could be more advantageous for next year's income taxes.

9. Strategize your business expenses

If you're self-employed or a freelancer, deducting your business expenses can save you considerable money on taxes. Depending on how much you've already spent on your professional work this year, you might consider prepaying for next year's expenses before the end of 2024 in order to reduce your tax burden.

For example, instead of buying supplies a month at a time, you could order and pay in December 2024 for supplies that you'll use for several months of 2025. The timing of your deductions might depend on whether you use a cash method of accounting or accrual basis, but front-loading business expenses for next year is a time-tested way of reducing your taxable income for the current year.

It's very important to note that everyone's tax situation is different. These end-of-year tax tips may be effective for you, but there is no "one size fits all" approach to tax preparation. Be sure to consult a tax professional before making any major tax decisions.