Tax Planning *for* All Seasons

Submitted by Steve Giacobbe, CFA, CFP®, Co-Founder and Managing Partner at Accredited Wealth Management

Getting your taxes in on time can be incredibly stressful. For many people, there is a tendency to wait until the last minute to tax plan, causing them to miss out on tax savings opportunities and elevating stress levels. Spreading your tax planning throughout the year can help lower your stress and save you some money! We believe good tax planning should be a year-round endeavor.

Below are some timeless tax-wise practices we regularly share with our clients. Hopefully, some of these ideas will help you save on future taxes and avoid the stress of tax time next year:

- Maximize the use of tax-deductible retirement plan contributions each year to lower your tax liability. The SECURE Act now permits savers to continue contributions to IRAs even after age 70½ if you have earned income.
- Make annual or one-time gifts to family members to transfer taxable income and future gains from your portfolio to others. This may reduce family-wide tax liability and reduce your taxable estate.
- Gift appreciated securities held for more than one year directly to charities or to a charitable donor-advised fund (DAF). The tax deduction is based on the value of the gift, and tax liability for you on any built-in capital gains are eliminated.
- Concentrate multiple years of charitable deductions into one year to maximize the tax benefits of giving, using the technique of "charitable bunching."
- Consider qualified charitable distributions (QCDs) from IRAs for those over age 70½, especially if you would not otherwise receive as advantageous a tax deduction for gifting taxable assets.
- Consider a Roth IRA or Roth 401(k) conversion or even discretionary distributions of IRA assets, especially if this will be a low-income-tax-rate year for you. If you have not already begun taking required minimum distributions (RMDs) from IRAs, one strategy we often recommend is to reduce or eliminate your traditional IRA assets before RMDs begin.

Throughout the year, we regularly look for opportunities to maximize after-tax portfolio returns beyond investment selection, allocation and rebalancing. Here are some of the techniques we utilize:

- Hold investments in taxable accounts for more than one year before selling them so that long-term capital gains rates will apply. The tax difference can be significant, assuming there is a good investment case for holding the position.
- Place the interest-earning portion of portfolios in tax-deferred accounts given interest income is taxed at your marginal tax rate, unlike long-term capital gains.
- When raising cash in portfolios, select securities or individual lots of a security that have the lowest taxable gain consequences.
- If there is market volatility throughout the year, look for opportunities to "harvest" capital losses. These realized losses can be used to offset realized gains elsewhere within or outside the portfolio and within the same tax year or rolled forward to future tax returns.
- For portfolios without significant tax-deferred assets, consider holding tax-exempt bonds in lieu of taxable bonds, depending on your marginal tax rate.

Good tax planning should be done year-round and can save you money while lowering your stress level around tax deadlines! Make sure you proactively coordinate with your tax and investment advisors throughout the year.

Written by: Steve Giacobbe, CFA, CFP®, Co-Founder and Managing Partner at Accredited Wealth Management. Call if you have questions or want to discuss year-round tax planning strategies.