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Tax Planning Tips

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As 2016 draws to a close, it is time to check that you have taken advantage of these simple tips to reduce your tax bill. It is best to keep these strategies in mind throughout the year, but there is still time to take advantage of them before year-end.

Work with your financial advisor to implement a tax-loss harvesting strategy

- Tax-loss harvesting is the process of selling security positions that have lost value in order to realize capital losses to offset capital gains earned during the year. The type of gains and losses should be considered when implementing the strategy in order to receive the maximum benefit. Short-term capital gains are those realized from securities held a year or less and taxed at rates up to 43.4%. Long-term capital gains are realized from investments held for over a year and are taxed at rates up to 23.8%. Losses of each type are first used to offset gains of the same type. Additionally, state and local taxes often apply to capital gains.
- Under federal tax rules, up to $3,000 of excess capital losses can be used to offset ordinary income and the remaining net capital losses can be carried forward indefinitely to offset capital gains in future years.
- Be mindful of the Wash Sale Rule which requires that if you sell a security at a loss you can't buy the same or a "substantially identical" security for 30 calendar days before or after the sale, the loss would be disallowed for tax purposes.

Make charitable contributions as efficiently as possible for maximum impact

- In a high-income year consider accelerating the tax benefits of multiple years of gifting by setting up a donor advised fund. You will receive the full deduction for the donation in the current year and be able to distribute the gift over multiple years.
- Consider making charitable gifts with highly appreciated securities. If an individual has held appreciated stocks, bonds or mutual funds for more than one year, they can donate those securities to a public charity and receive a tax deduction for the fair market value of the securities for up to 30% of the donor's adjusted gross income. Donating appreciated securities eliminates the realization of any capital gains and the corresponding tax liability for the donor.

Consider making a tax-free IRA distribution to a charity

- Individuals age 70½ and over can make a tax-free distribution of up to $100,000 from their IRA directly to a charity. This transfer counts toward your RMD but is not included in your AGI, which can help you stay under income thresholds for Medicare Part B and Part D and taxable social security benefits.

Contribute the maximum to employer-sponsored retirement accounts

- Individuals participating in 401(k) or 403(b) plans can contribute up to $18,000 for 2016, with an additional catch-up contrition of $6,000 for those over age 50.

Consider a SEP IRA for your self-employment income such as board or consulting fees

- A SEP IRA is a type of traditional IRA for self-employed individuals or small business owners.
- Individuals are eligible to contribute to a SEP IRA even if they are an employee of another business and participating in that business's qualified retirement plan, such as a 401(k).
- Only the employer (or self-employed person) contributes to the account and contributions are made on a pre-tax basis. The employer's contribution rate must be the same for all eligible employees.
- For 2016 a person with self-employment income can contribute up to $53,000 or 25% of their total compensation, whichever is less.
- SEP IRA contributions for a year are due by the date (including extensions) for filing your federal income tax return for that year.

Take advantage of the annual gift exclusion

- Individuals can gift up to $14,000 each year per recipient without any impact to their lifetime exemption. If married, individuals and their spouse can gift up to $28,000 per recipient per year.

Contribute to a 529 Plan

- Contributions to 529 Plans remove assets from your estate where they grow tax-free.
- Some states offer a tax deduction or credit on the contributions made to these plans.
- Consider frontloading the plan using the 5-year gift-tax election to contribute up to 5 times the annual gift tax exclusion amount per beneficiary ($70,000 for 2016, $140,000 for joint gifts).

Make up a tax shortfall with increased withholding

- If an individual finds themselves under-withheld for previous tax quarters they should consider increasing the amount of withholding on salary or bonus income. A large fourth quarter estimated tax payment will not make up for underpayments in previous quarters. On the other hand, withholding is considered to have been paid ratably throughout the year.

It is important to consider these options in coordination with your financial plan. Talk to your Massey Quick Client Advisor about which of these strategies will best work for you.

Disclaimer

It is important to note that earnings on a distribution not used for qualified expenses or withdrawn prior to age 59½ may be subject to income taxes and a 10% federal penalty. The availability of tax or other benefits may be conditioned on meeting certain requirements such as residency, purpose for or timing of distributions or other factors as applicable.

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