TAX PLANNING CHECKLIST

We pay tax under a progressive system. Our marginal tax brackets increase as our income increases. In some cases, the tax law carves out special exceptions to this rate structure for certain types of income. In others, additional taxes are added. As a result, the first step in developing an effective tax plan is to understand where you are in the bracket structure, which elements of your income and deductions are controllable, and what your future income situation looks like.

Compare your Current Projected Tax Bracket to your Current and Future Tax Bracket Targets:

- Optimize the use of lowest tax brackets that are available to you with ordinary income.
- Fund excess cash flow needs in the following order to help maximize bracket structure:
    1. Qualified Dividends.
    2. Net long-term capital gains.
    3. Return of capital / tax-free income.
- Balancing these rate targets should take place with a multi-year perspective.

Based on your Tax Bracket Analysis, determine whether you should accelerate or defer income:

If your goal is to accelerate income because you expect more income and or higher tax rates in the future, consider:

- Harvesting capital gains to reset basis, and to utilize zero and fifteen percent capital gain brackets.
- Making Roth IRA and 401(k) Contributions instead of Traditional IRA Contributions.
- Making Roth Conversions (this can be complicated – speak to your advisor before proceeding).
- Business owners should ask customers to make payments in the current year. They may be looking for opportunities to pay deductible expenses for their own tax planning reasons.
- Delaying gifting. Make gifts from previously funded Donor-Advised Funds.
- Postponing the payment of state and local income taxes.
- Delaying the purchase of equipment for use in your business.

If your goal is to defer income, consider:

- Making deductible retirement account contributions, including those to employer-sponsored retirement plans and Traditional IRAs.
- Adopting workplace plans that allow for more aggressive funding.
- Contributing to your Health Savings Account.
- Harvesting deductible losses.
- Contributing to a 529 Plan.
- Considering funding a Donor-Advised Fund to accelerate multiple years' charitable deductions into one year.
- Buying depreciable business property at year-end and making elections to accelerate depreciation expenses.
- Making charitable contributions directly, through a Donor-Advised Fund, Qualified Charitable Distributions if you are subject to RMDs, or a donation of appreciated stock.
- Scheduling elective medical or dental procedures in the current year if you will receive a tax benefit.
- Accelerating the payment of state and local income taxes if you will receive a tax benefit after the SALT limitations.

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General Observations and Planning Points:

- Make sure your investment assets are properly located across tax environments. This is a long-term strategy that can pay big dividends over time.
- Are you taking distributions from the appropriate tax environments, in the appropriate amounts, at the appropriate times to optimize your tax brackets?
- Have you evaluated and implemented the appropriate Social Security claiming strategy?
- Have you evaluated the benefit of "bunching" itemized deductions into alternating years?
- Avoid the 3.8% Medicare surtax by managing both income thresholds and investment income, if possible.
- Avoid triggering Medicare's Income-Related Monthly Adjustment Amount (IRMAA) surcharges on Medicare Part B and Part D.
- Explore taking employer stock from tax-deferred accounts under favorable NUA tax rules.
- Make appropriate estimated tax payments. Consider delaying estimates until year end and withholding required IRA distributions.
- Make as many annual exclusion gifts as you would like every year. The annual exclusion is lost every year if not utilized before year end. The gift limit can be doubled if a donor's spouse consents.