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Tax Planning? You've Got Something to Celebrate

Break out the champagne! It's time to celebrate Tax Freedom Day, which falls on April 9 this year, more than two weeks earlier than last year. In case you're unfamiliar with this "holiday," it marks the point in the year when the nation as a whole has earned enough money to pay its total annual tax bill. And, because Tax Freedom Day roughly coincides with the deadline to file taxes (April 17 this year), now is the perfect time to examine some tax-saving strategies that can help make preparing next year's taxes a little less painful.

Retirement accounts. There are multiple avenues to maximize your retirement savings; one method is to begin by maxing out the amount you contribute to these accounts. This year, you may contribute up to $18,000 to your 401(k) and $5,500 to your IRA (for those 50 years old and older, the limits are $24,000 and $6,500, respectively). If your income has prohibited you from contributing to a Roth IRA in the past, you may want to consider converting your traditional IRA to a Roth (though keep in mind you will need to pay the taxes on any amount you convert). Once you turn 70 ½, you must begin making taxable required minimum distributions from your traditional IRA or face stiff penalties. By contrast, Roth IRAs do not require minimum distributions, so they can be a great way to minimize this tax hit.

Tax-advantaged investments. It's not just *what* you invest in, but *where* you invest. A comprehensive tax-planning strategy should include a review of account types. If you've been investing for retirement, chances are you own mutual funds, exchange-traded funds, stocks or bonds. If so, it pays to carefully consider where to hold these investments. For example, if you've been thinking about investing in tax-free bonds, it may make more sense to own them outside of your retirement accounts. Such investments are already tax-advantaged, so holding them in your IRA or 401(k) provides no additional tax benefit. Instead, consider using the money in these tax-advantaged accounts for investments that may throw off a lot of gains or otherwise taxable income that may become tax-deferred or tax-free growth in a qualified account.

Insurance. Owning insurance can come with its own set of tax consequences. If you have a life insurance policy with a cash value component, the tax on any gains may be deferred as long as you don't sell, surrender, or withdraw from the policy. You may be able to access these funds tax-free through the use of policy loans or other qualifying events, so it is important to understand your options that vary with each provider. However, another important aspect to consider is that some policies expect you to continually contribute to maintain your death benefit. Annuities are another type of insurance that will have varying tax obligations to consider where and how they may make sense within your unique plan. They can either provide the advantage of tax-deferred growth to after-tax money with the earning being taxable at income rates, or if used with a retirement account to provide income, these payments will be subject to income tax if used with a traditional retirement account or may even be tax-free if used with a Roth IR with qualified distributions. As for long-term-care insurance, premiums may be deductible, while benefits paid out are not taxable as long as they do not exceed the actual cost of care.

To help maximize your tax savings this year and in the future, or to learn more about how to create a tax-advantaged retirement income plan for your unique needs, contact us at (256) 715-0094 for a consultation.

DISCLOSURE: