Year-End Tax-Saving Investment Strategies

As the holiday season has quickly descended upon us, so will a new tax-filing season. Have you thought about the numerous effective tax-saving strategies you can deploy at year's end? Knowing how to fully utilize the tax strategies of your various investments can not only create significant tax savings now, but also help you accomplish anything, from paying off your mortgage early to leaving a legacy to provide for generations to come.

1. Consider a Roth IRA conversion.
In 2016, if your income exceeds $117,000 if you're single or $184,000 if you're married,[2] you are not eligible to contribute to a Roth IRA; however, there are currently no income limitations or caps on how much you can convert to Roth. While legislation has been proposed in recent years to eliminate this conversion option—sometimes known as a "backdoor Roth conversion"—under current law, a conversion allows you to pay income tax today on any amount converted so that future growth and distributions will be tax free. As a part of your annual review, weighing the pros, cons, and options of Roth conversion is often worth revisiting each year.

2. Harvest capital losses on your investments and use them to your advantage.
Depending on how your investments are allocated, you may be able to take advantage of cashing in on appreciated assets by netting them with your losses on the assets that didn't perform so well. Under normal circumstances, capital losses can be deducted up to only $3,000 per year from your income. Any excess amount above that threshold can then be carried forward until the balance is empty. However, if you cash out assets that produced a loss in the same year as assets that significantly appreciated, then you can net the loss with your capital gains. This is often referred to as tax-loss harvesting because you can reap a great deal of benefits—that is, you not only get maximum utility from capital losses, but also avoid capital gains tax, net investment income tax (NIIT), and being placed into a higher tax bracket.

3. Avoid significant penalties by taking your required minimum distributions (RMDs) if you are age 70.5 or older and own traditional retirement accounts.
If your retirement assets are parked in tax-deferred qualified plans, those assets can't sit there growing infinitely. You will need to start making withdrawals called RMDs after you reach age 70.5. With the oldest of the baby boomer generation reaching this landmark age, this will be a new and important consideration for many. If you do not have your RMDs correctly calculated and distributed each year and taken on time, you will be required to pay a 50% excise tax on the entire or remaining RMD amount that was not withdrawn from the account, above and beyond the income tax that will be due upon the withdrawal!

4. Make catch-up contributions to your retirement plans and other tax-deferred plans if you can.
In 2016, for Roth and traditional IRAs, you can contribute up to $5,500 per year ($6,500 if you're 50 or older.) 401(k)s have a contribution limit of up to $18,000 per year ($24,000 if you're 50 or older). You actually have until April 2017 to make these contributions if you need to organize your finances first. However, putting off these contributions may mean lost earning potential if dollars are waiting on the sidelines, so procrastination may not be in your best interest.

For more great tax-saving tips, **contact us** to request our latest white paper: "2016 Year-End Tax-Saving Strategies: Maximizing Your Investment & Retirement Income with Tax-Advantaged Planning," or call (256) 715-0094 to request a complimentary consultation!