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The Tax Man Cometh

Death and taxes may be inevitable, but death only comes once. Taxes are a daily part of life, particularly each April when the pain of tax return preparation is fresh in our minds. Which makes this a good time to look at how to reduce the tax bite on investment earnings.

1. Take advantage of tax deferral on retirement savings by making maximum contributions to tax deferred retirement accounts, such as IRA, 401K, SEP-IRA, 403(b), 457, SARSEP and SIMPLE IRA plans. In most cases, your contribution is tax deductible, and your account grows tax free until withdrawn at retirement. Having your money compounding rather than losing it to tax payments can make a sizeable difference in the growth of your account over time.
2. Contribute as much as you can to a Roth IRA (or a Roth 401K) where contributions are after tax, but earnings are tax free when withdrawn in retirement.
3. If your investment approach produces lots of short-term gains, you want those funds invested in a retirement account where they can grow tax deferred. Otherwise, you lose a substantial part of your gains each year to taxes and that's money that will never be able to compound to your benefit.
4. Long-term investments may be better off in a taxable account, where you only pay the long-term capital gains tax when positions are sold. If your present income is low enough, you may be able to avoid capital gains taxes altogether (but that could change with the next tax law).
5. If you make income from personal interests outside of your normal job, structure your income as a small business to allow you to take business write-offs rather than personal deductions.
6. Track your expenses, particularly with respect to long-term improvements to your home. There's a good chance your gains on the sale of your home will top the personal capital gains exemptions from the sale of a residence ($250,000 individual or $500,000 married), in which case you will need proof of your investments in your home's value to lower the taxable gain.
7. If you are concerned about your heirs having to pay estate taxes, the sooner you work with a qualified estate planner the better. Don't overlook using your individual annual gift tax exclusion of $15,000 per recipient to move monies out of your estate.

Most important, talk to your financial adviser, accountant or legal adviser on how you can protect income from taxes. Work with an expert to understand the rules and put your plans in place to minimize taxes today and in the future. But take care in doing so that you do not incur tax penalties from improper tax avoidance.

Every dollar you don't lose to taxes is money that can make you money. Put it to work!

This information is intended as a general overview and is not tax advice. Make certain to consult with a qualified tax adviser to best plan how to minimize your tax burden.