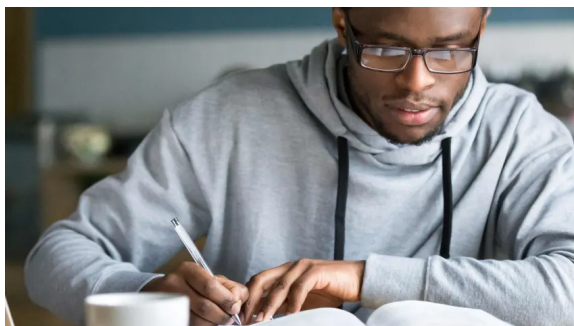


TAX PLANNING

5 Ways to Prepare for Higher Taxes Under President Biden

Will you be affected by tax changes in the future? Growing national debt, changes in Washington, and new policies on the horizon could impact you more than you might think. Here are five ways to prepare for higher taxes in the future.

by: **M. Scott Moore, Investment Adviser Representative** - January 25, 2021



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Even if you think your taxes are too high, you might be enjoying relatively low taxes right now. If you are watching the news and hearing about government COVID-19 relief spending and [President Biden's tax plan](#), you may be wondering if your tax burden will grow.

The 10 Least Tax-Friendly States for Middle-Class Families

There are several reasons to think you might be affected, especially if you are a high earner or have a significant amount saved in a tax-deferred retirement account, such as a 401(k). One, is that our national debt is growing as a response to the pandemic, just as it did during World War II. Following the war, income tax rates for high earners remained significantly higher than they are today for decades, with the top federal income tax rate at 91% for most of the 1950s. If history repeats itself, Americans may have to pay later for the debt that is accumulating now through higher taxes in the future.

The other reason to think taxes might be higher in the future is that President Biden and his vice president, Kamala Harris, are in favor of [several tax-increasing measures](#). These include:

[Skip to footer content](#) 3-term capital gains on incomes above \$1 million at ordinary income rates instead of the current rates.

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It has also been said that he would like to repeal the Tax Cuts and Jobs Act before it expires at the end of 2025. So, with all that in mind, what can you do to help reduce your tax burden?

1. Take Advantage of Tax-Advantaged Investments

Most people know about the benefits of contributing to a 401(k) or IRA: Many workplaces offer 401(k) plans, and if someone does not have access to one, they can contribute to an IRA. 401(k) contributions are not taxed, and the money grows tax-deferred until it is withdrawn. However, those who contribute to a tax-deferred retirement account should consider their tax burden in the future, especially when they turn 72 and must take Required Minimum Distributions.

Considering this, to potentially reduce your future tax bill, you may want to consider adding other investments with potential for tax-advantages: Cash value life insurance, when funded with post-tax funds, can possibly offer some tax benefits. Funds inside of a cash value policy usually grow tax-free and if structured correctly, these funds can be withdrawn tax-free, and the death benefits can be paid to beneficiaries tax-free as well, potentially making it a valuable accumulation and estate-planning tool for some.

2. Use Tax Credits

While tax deductions reduce a person's taxable income, tax credits reduce the actual amount of tax owed. Tax planning can help you take full advantage of the tax credits that are available to you, including the Dependent Care Tax Credit, the child tax credit, and the American Opportunity Tax Credit for education.

3. Contribute or Convert to a Roth IRA

One long-term tax-minimization strategy is to [use a Roth IRA](#), where contributions are taxed, and qualified distributions are not. However, there are income limits preventing many people from investing in a Roth directly. For 2021, if someone is over the income limits of \$140,000 for single filers or \$208,000 for married couples, they can still do a Roth conversion. Anyone can convert funds from a 401(k) or traditional IRA into a Roth IRA by paying tax on the amount converted. From there, it can grow in the Roth account and be withdrawn tax-free later on.

4. Consider Municipal Bonds

Municipal bonds are investments that also come with tax advantages. Most are exempt from federal taxes, and some are exempt from state and local taxes. Many are also exempt from the Alternative Minimum Tax (AMT). High earners can benefit, since interest is not calculated as part of net investment income, which can affect everything from their tax burdens to their Medicare premiums and tax on Social Security benefits.

5. Income Splitting

Income splitting involves moving some of your income to family members who are in a lower tax bracket. This doesn't simply mean handing out cash to all your trusted family members. It is a series of financial planning moves to make the most of your family's wealth. This can include setting up a spousal IRA. Married couples with one spouse who does not earn income may be able to benefit from this strategy. The working spouse may be able to contribute to a Roth IRA on behalf of their non-working spouse if they file taxes jointly. Spousal IRAs are not joint accounts, they are two separate Roth IRAs set up in the name of the non-working spouse. Note that spousal IRAs are still subject to the regular Roth IRA income limits.

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Some other income-splitting options are establishing a 529 plan for your children, grandchildren, nieces or nephews. Once you contribute to a 529 plan, the funds can grow and be withdrawn tax-free for educational costs. Some states will give you a tax credit for putting money into a 529, and most states offer a tax deduction if you contribute to a 529 provided by that state. You can now [use a total of \\$10,000 from a 529 plan](#) account towards private elementary and secondary school tuition, as well as college tuition and student loan repayments. Even if you don't have grandchildren yet, you can name your son or daughter as the account beneficiary. Then, if grandchildren come along later, you can name them the beneficiaries instead.

The Right Strategies Depend on Your Individual Situation

While there are many tax-minimization strategies available, it is not always clear which ones are right for someone and how exactly they should be used. We might see major changes to the tax code in the coming years, and it is important for taxpayers to understand how they may be affected and seek out professionals who stay on top of these changes. Equally as important is going to a professional who understands your family's situation and who you can trust. As tax planning gets more complex, a one-size-fits-all approach will not serve people as well as tailored approaches that take into account family dynamics and financial goals.

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So You Got a Letter from the IRS

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For the past 30 years, it has been M. Scott Moore's goal, as founder and president of [Moore's Wealth Management](#), to help pre- and post-retirees in the Southeast United States properly prepare for and protect their retirement assets. Scott is well

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