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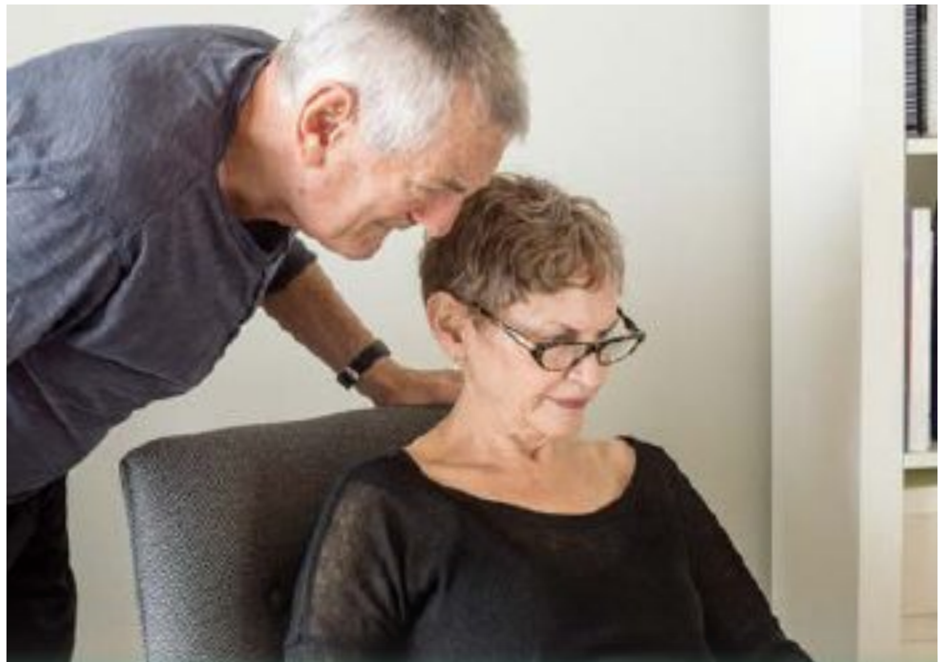

Year-end **review**

Tax law offers potential ways to save

By Jeffrey Steele

It's always wise to engage in end-of-year tax planning to uncover tax savings you might otherwise have missed.

And it's a particularly terrific idea as 2018 comes to a close, because the Tax Cuts and Jobs Act, which Congress passed in late 2017, offers potential new ways to save, whether you're approaching retirement or already a retiree.

If you're approaching retirement, setting up a qualified plan such as a 401(k) or 403(b), or a SEPP IRA if you're self-employed, is one of the easiest tax-saving steps to take, according to John Campbell, senior vice president, managing director of wealth planning for U.S. Bank Private Wealth Management in Chicago.

Anyone over 50 can put aside $18,500 plus a catch-up contribution of $6,000 this year in a 401(k), and a total of $6,500 in an IRA — and it will immediately lower their taxable income.

"And not only will it lower their taxable income, but under the new 2017 tax act effective in the 2018 tax year, it could put them into a lower tax bracket," Campbell says. "In a lower tax bracket, your overall tax liability will be reduced."

Reviewing your portfolio for unrealized losses on stocks that have

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ally makes sense to prioritize debt reduction, but there are exceptions.

"Paying down a traditional loan like a mortgage or student loan only reduces the outstanding principal and related interest costs," Smith says.

Making extra payments will save you money in the long run, but in the short term, it doesn't cause your lender to recalculate and lower your monthly payments.

When deciding whether to pay off tax-deductible debt versus saving, don't worry about losing a tax deduction if you pay off the debt. The deduction is probably worth less than the annual interest you would have paid on the loan.

When to save before paying debt

There are a number of good reasons to save first and pay later, but the top reason is to build your emergency fund.

If your debt has a very low interest rate, it may make sense to save first, says Melissa Joy, certified financial planner and founder of Pearl Planning, a financial planning and wealth management practice in Dexter, Mich.

"If you don't have any savings, focusing solely on paying debt can backfire when unexpected needs or costs come up," Joy says. "You might need to borrow again, and debt can become a revolving door."

Experts recommend building an emergency fund of three to six months' worth of expenses and stashing it in a savings account. Compare savings account rates to find the best fit.

Another situation where it makes sense to save before paying debt is if you have access to a retirement savings plan through your job, especially if there's an employer match available. Try to contribute at least enough to get the maximum employer match.

Putting off saving for retirement until you are debt-free could cost you your most valuable asset: time. With compound interest, even small contributions to your retirement plan can grow significantly.

The ideal approach

The best solution could be to strike a balance between saving and paying off debt.

You might be paying more interest than you should, but having savings to cover sudden expenses will keep you out of the debt cycle.

Additionally, having sufficient savings provides peace of mind. Some people are unlikely to feel at ease with any strategy that causes their savings to fall below a certain level. For them, saving and paying down debt at the same time might be the best approach.

Giving is good

How charitable contributions can minimize tax liability on RMDs

By Jeffrey Steele

Required Minimum Distributions exist because the Internal Revenue Service insists on reaping tax revenue on money that has been sheltered in tax-advantaged retirement plans.

At age 70 1/2, Americans are required to begin withdrawing minimum percentages in retirement accounts on an annual basis and pay-

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ing taxes on those RMDs. But there is a way around those taxes: Making qualified charitable distributions.

A qualified charitable distribution is an IRA distribution made directly to a qualified charity, says Kevin Phillips, financial adviser at Savant Capital Management in Naperville, Ill. Such a distribution can be made from a conventional IRA, and from a SEPP IRA or Simple IRA as long as those IRAs are not considered ongoing (meaning the employer has stopped contributing to them). Distributions cannot be made from 401(k)s or 403(b)s.

It wasn't until Congress passed the Protecting Americans from Tax Hikes Act of 2015 that qualified charitable distributions became a permanent part of the tax landscape, Phillips says.

"This is one example in retirement planning where a small change can have a huge impact," says John Jenkins, senior wealth manager with Frontier Wealth Management in Wichita, Kan. "If you are over 70 and give regularly to charitable causes, it stands to reason to give through an IRA."

Qualified charitable distributions allow donors 70 1/2 or older to authorize direct rollovers from their IRAs of up to $100,000 per year directly into qualified charities, says John Campbell, senior vice president, managing director of wealth planning for U.S. Bank Private Wealth Management in Chicago.

"The amount rolled over is not considered taxable income. And although there are no charitable deductions for the amount rolled over, it does satisfy the required minimum distribution for RMD purposes," Campbell says.

Each member of a couple can contribute $100,000 from his or her respective IRA, for a total distribution of $200,000, Campbell reports. If you have a 401(k), 403(b) or similar, you can roll over the account balance of your qualified plan into your IRA, and take advantage of the IRA charitable rollover, he says.

It is vitally important that the distribution is sent directly to the charity, says Ken Novak, vice president and senior financial consultant for the Charles Schwab Michigan Avenue Branch in Chicago.

"If the individual using this strategy has the money sent to himself, and then writes a check to the charity, it disqualifies that contribution from being an IRA-qualified charitable distribution," Novak says.

Why now?

The qualified charitable distribution strategy now exists because of the changes ushered in with the Tax Cuts and Jobs Act of 2017. As a result of those changes, a high percentage of married retirees filing jointly will no longer itemize deductions for the 2018 tax year, but will take the standard deduction of $24,000 per year instead. Consequently, they won't get the tax benefit of their charitable contributions.

"If they're making charitable contributions and using the standard deduction, they wouldn't reduce their tax bill by making the charitable contribution," Phillips says. "The

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qualified charitable distribution is a way around this."

An approach that works especially well for those making qualified charitable distributions is to have the IRA custodian issue a checkbook for the IRA, Phillips says.

"It's especially nice for someone who makes a substantial number of charitable donations each year, so they don't have to go to the custodian each time they do," he says. "The check can't be for someone buying tickets to a fundraiser, however. It has to be a donation to a charity."

In addition to helping avoid taxes on withdrawal, a qualified charitable distribution has the potential to reduce the amount of taxes due on Social Security benefits.

"The amount of Social Security distributions taxed each year is dependent on the overall income for the year," Phillips says. "As a result of these qualified charitable distributions not being counted as income, the amount of tax paid on Social Security benefits could be decreased."

Phillips urges those considering qualified charitable distributions to speak with their financial advisor and/or tax professional to make sure their approach is implemented correctly. ❯

Investing in socially responsible companies

Portfolios that reflect values can pay off

By Karen Schwartz

Initially, when investors thought of socially responsible investing, they shunned companies making money from alcohol, tobacco and gambling. Today's investors want more, so they go looking for for-profit companies whose values line up with their own.

Companies such as Starbucks, Patagonia, Zappos, Google and Apple put money into environmentally sustainable practices and embrace social missions, and many investors are putting their money where their social and political leanings lie.

In 2017, Morgan Stanley surveyed the socially responsible scene and found that 86 percent of millennials were interested in sustainable investing, including 38 percent who were "very interested." And, the Nielsen Global Survey of Corporate Social Responsibility found that more than half of those surveyed "are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact."

Today, an increasing pool of investors are turning to socially responsible investing, which the Forum for Sustainable and Responsible Investment defines as "an investment discipline that considers environmental, social and corporate governance criteria to generate long-term competitive

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