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Featured content

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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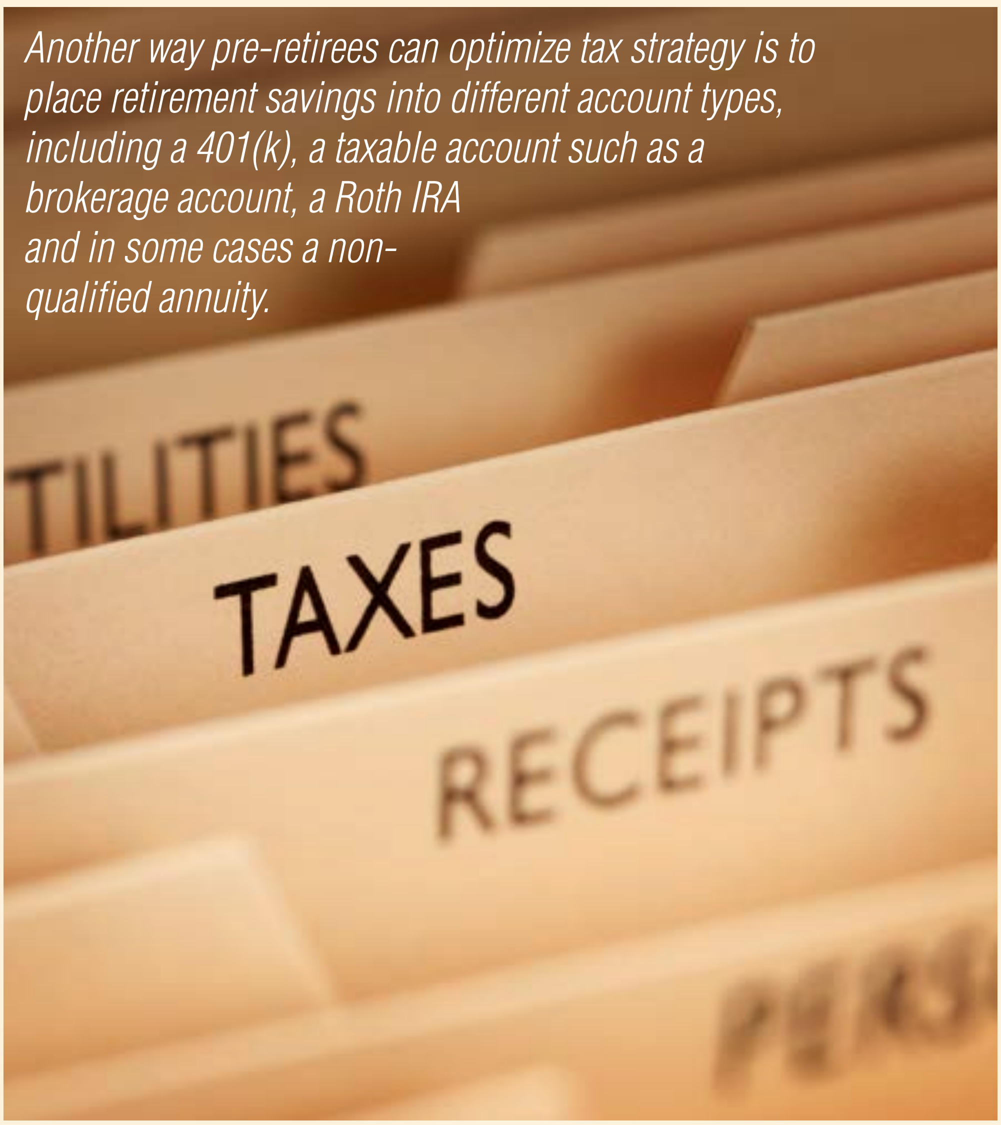
lost value is another tax-wise step.

"You can sell your stock with unrealized losses to offset realized capital gains on stocks or other marketable securities," Campbell says. If, for instance, you have realized a $10,000 gain on the sale of a stock, and you have three stocks where losses in the aggregate are $10,000, the time to sell those to offset taxable gains would be before year's end.

When it comes to tax-optimizing your retirement, your last five working years (which often represent the highest-earning period of an employee's career) are significant, says Nick DeJong, financial adviser with the Naperville, Ill., office of Savant Capital Management.

If you anticipate an earnings decline in retirement, it might make sense to front-load charitable deductions through a donor-advised fund, which lets you receive the tax deduction while you're in a higher tax bracket and consequently makes the deduction worth more.



"Once they retire, they can give money out of that donor-advised fund when they've dropped into a lower tax bracket," DeJong says.

Another way pre-retirees can optimize tax strategy is to place retirement savings into different account types, including a 401(k), a taxable account such as a brokerage account, a Roth IRA and in some cases a non-qualified annuity.

What is the rationale behind this approach? "You have diversified your retirement portfolio, so you have options in retirement in where you withdraw your money," says DeJong says, who notes that kind of flexibility helps retirees "better manage their taxable income once retired."

Speaking of that taxable account: "Consider using tax-efficient, index-tracking exchange-traded funds in place of actively-managed mutual funds," says Kevin J. Prendergast, vice president and chief operating officer with EFG Advisors in Schaumburg, Ill. "While investors should research specific ETFs carefully before investing, ETFs rarely if ever distribute taxable capital gains at year-end."

If you're already retired, end-of-year tax planning strategies can work for you, as well.

Tax law changes make it important to explore whether you will itemize

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deductions for 2018 and beyond because rules for standard deductions have changed, DeJong says. A married couple filing jointly can now take a standard deduction of $24,000.

Retirees are still able to itemize large medical expenses, as well as state and local taxes—now capped at $10,000 a year—including property taxes. Mortgage interest is still a possible deduction, as are charitable contributions. If all those things add up to, say, $20,000, married couples filing jointly won't itemize, but will opt for the higher standard deduction of $24,000.

"This informs how you might pursue other tax deductions. A particular strategy of 'bunching' your charitable deductions in one year allows you to get over that standard deduction of $24,000 so you can itemize," DeJong says. "But you plan for the next couple years to claim the standard deduction."

The bottom line is that it makes good sense to examine your tax situation carefully before year's end.

"Take a look at your tax situation in light of the changes to the tax law; there are changes that will impact many, many taxpayers," De Jong says. "And it's best to know how to navigate those changes before end-of-year so you can maximize your savings. There are some opportunities that only come once, and if you don't take advantage of them, you've lost them forever."

Retirement **red zone**

Is it time to change advisers?

By Ed Avis

Brent Weiss, head of planning for Facet Wealth in Baltimore, calls the years between the 50s and retirement the "retirement red zone."

Football coaches know that when their team is in the red zone — the final 20 yards before the end zone — they need to call different plays than they did midfield. Similarly, the investment decisions you make as you near retirement probably will not be the same as those you made in your 30s or 40s.

And that might mean you need a new financial adviser.

"Your needs at that stage are vastly different than (the needs of) someone coming out of college or in their mid-career," Weiss says. "You want to make sure you're working with an adviser who works with clients who are like you."

When you were in your 30s and 40s, you likely were focused on growing a fat retirement piggy bank. If you made an investment mistake or two then, there was plenty of time to play catch-up.

In the retirement red zone, things change. An investment mistake can do more damage, because you'll be cracking open that piggy bank soon. That's why people nearing retirement generally have a more conservative investment outlook.

But shifting to a conservative investment strategy is not the only

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