

Smart Tax Strategies to Keep More of Your Money

Tax rules can be complex, and maximizing opportunities requires careful planning. A financial advisor can help you implement strategies that align with your financial plan and minimize tax exposure. Here are four key approaches to consider year after year.

Maximizing Tax-Advantaged Accounts

One of the most effective ways to lower taxable income is by contributing to tax-advantaged retirement accounts. Contributions to accounts like 401(k)s and IRAs are often made with pre-tax dollars, reducing taxable income for the year. Investments within these accounts grow tax-free, and withdrawals in retirement are taxed as ordinary income.

If your employer offers a 401(k) match, contributing enough to get the full match is an easy way to maximize savings. Additionally, a financial advisor can help determine whether a Traditional or Roth IRA is best based on your tax situation and retirement goals. Roth IRAs allow for tax-free withdrawals in retirement, making them a valuable tool for those who expect their tax bracket to rise.

Strategic Gifting and Charitable Contributions

Giving away money strategically can help lower tax liability while allowing you to support causes you care about or transfer wealth to loved ones.

- If you itemize deductions, charitable contributions can reduce taxable income.
- Donating directly from an IRA to charity through a Qualified Charitable Distribution (QCD) can satisfy required minimum distributions while avoiding taxable income.
- Annual gift exclusions allow tax-free gifting to family members, helping to reduce the size of a taxable estate over time.

A financial advisor can help structure charitable donations or set up trusts to optimize tax benefits while achieving your giving goals.

Leveraging Health Savings Accounts (HSAs)

If you have a high-deductible health plan (HDHP), a Health Savings Account (HSA) allows you to save for medical expenses in three ways:

1. Tax-deductible contributions
2. Tax-free investment growth
3. Tax-free withdrawals for qualified medical expenses

Unlike Flexible Spending Accounts (FSAs), HSA funds roll over each year and can be invested for long-term growth. After a certain age, withdrawals for non-medical expenses are taxed as ordinary income, making HSAs a valuable savings tool that can complement a retirement plan.

Using Tax-Loss Harvesting to Offset Gains

Tax-loss harvesting allows investors to offset gains by selling underperforming investments. The losses incurred can be used to offset capital gains from other investments, and if the losses exceed gains, a portion may be deductible against ordinary income. Unused losses can often be carried forward to future years, providing ongoing tax benefits.

Capital Gains Tax Considerations:

- Short-term gains (held for less than a year) are generally taxed at a higher rate than long-term gains.
- Long-term gains (held for more than a year) may be taxed at a lower rate, depending on income.
- The wash-sale rule prevents claiming a loss if you repurchase the same security within a short time frame.

A financial advisor can help ensure tax-loss harvesting is executed correctly and aligns with your investment strategy.

Effective tax strategies require planning throughout the year, not just at tax time. A proactive approach to tax planning can lead to significant savings over time, allowing you to build wealth efficiently and secure your financial future.