RETIREMENT **Navigator**
Guidance and advice to get you there.
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Four Year-End Tax Saving Strategies

On December 17, 2017, President Trump signed the Tax Cuts and Jobs Act (TCJA). This new tax law has been described by many as the most sweeping tax legislation since the Tax Reform Act of 1986.

Regardless of which side of the political aisle you are on, or personal views on how politics impact your situation and the economy as a whole, there are financial planning opportunities of which to be aware. In this article, I will lay out what I believe are four action items that individuals in or approaching retirement can take this year to maximize their tax efficiency within the rules of the TCJA.

1. Scratch Your Charitable Itch

The TCJA removed or capped several types of itemized deductions. In addition, the standard deduction was doubled. Many individuals who had previously itemized may now benefit from using the standard deduction. This will lessen the tax benefit of items such as the charitable deduction.

There are two strategies to consider to remain charitable while utilizing the tax code to your advantage. The first is a concept known as bunching. When you bunch together more than one year of charitable giving, the larger amount might bring itemizing back into the picture during that year. For example, rather than three equal charitable gifts in 2018 through 2020, you might consider bunching those three gifts into 2018, and take advantage of the itemized deduction in that year. For years 2019 and 2020, you might consider skipping charitable gifts while taking advantage of the standard deduction. The end result is the charity receives the same amount from you in donations, while you maintain your maximum tax exemptions.

The qualified charitable contribution (QCD) is another strategy to consider. A QCD is a direct contribution to a qualifying charity from an eligible IRA. When done correctly, this strategy can satisfy your required minimum distribution (RMD), without impacting your taxable income while fulfilling your charitable giving objectives. A QDC allows you to prevent up to $100,000 of your RMD from being subject to income tax. To qualify, the distribution must be made directly to a qualifying charity. Most 501(c)(3) organizations and religious organizations qualify for QCDs, however it should be noted that private foundations and donor-advised funds are not eligible for QCDs.

2. Location, Location, Allocation

You have probably heard that asset allocation is an important part of investing, however, for tax-efficiency, asset *location* is also very important. Investments that produce high taxable income yields should be held in accounts that shelter taxes, such as IRAs and Roth IRAs. Additionally, actively traded funds, which might have hidden tax liabilities, should also be held in tax-sheltered accounts. While tax-efficient investments like indexed funds and municipal bonds are more appropriate for taxable accounts.

Keeping an eye on the location of your investments is a great way to protect against surprise tax consequences within your investment accounts.

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3. Ditch the Losers

If you have investments in your taxable accounts that have significant losses, you may consider harvesting those losses by selling the positions. You can then use those losses to offset any realized gains you may have in other assets. It may even be enough to keep you from moving into an adverse taxable situation, if your income is approaching certain tax thresholds.

4. Cut off Uncle Sam through a Series of Roth Conversions

If your adjusted gross income remains unchanged from 2017 to 2018, your overall tax bill is likely to drop. These lower tax-brackets are scheduled to sunset after 2025.

With the lower tax environment provided by the new code, another consideration is a series of Roth conversions. Converting tax-deferred assets into tax-free investments is one opportunity to take advantage of these lower rates. Accessing funds from the traditional IRA will cause a taxable event in the year of the conversion. For that reason, many people forgo the "opportunity" to pay the taxes. What you accomplish by paying the taxes now, versus later, is you essentially end your partnership with Uncle Sam. Once you convert the dollars to a Roth account, you are done paying taxes on those dollars and solely benefit from any potential growth that they provide.

A good time to consider Roth conversions is in the years after working, but before age 70½. This is because many see a drop in income during that time, which lessens the tax consequence for the conversion. Coupled with the lower rates, now may be a great time to consider converting.

Piecing it all together

To determine your optimal tax-efficiency strategy, review each of these in combination with each other, as well as individually. A qualified tax-planning professional can help you determine the right strategies for your unique situation. You should consult your own tax, legal and accounting advisors before engaging in any tax strategy.

I hope you find this information helpful. It is a bit technical, and you may be wondering whether these strategies even apply to you. If you have questions, please do not hesitate to contact me. It humbles me to have the opportunity to help people I care about make smart financial decisions.

I hope you have found this review to be educational and helpful. As always, I am honored and humbled that you have given me the opportunity to serve as your financial advisor. To review your retirement income strategy, please contact Jeff Mahoney, CFP®, RICP® at jeffmahoney@hjsims.com or (952) 683-7503.