SPIRE GROUP'S YEAR-END TAX PLANNING STRATEGIES

November 7, 2017

5 STRATEGIES TO SHRINK YOUR TAX BILL

If it looks like you're going to have a high tax bill this calendar year, there are things you can do to reduce it. Here are five ideas to consider.

1. **Defer taxable income**

   You can try to defer some of your income into the next year, but it can be tricky. If you're an employee, you may be able to request that additional compensation or a bonus be shifted to the next year.

   If you're self-employed, you usually have more flexibility. Cash-basis should consider receiving payment after the end of the year. Try to schedule some of your billable work into the next year.

2. **Contribute to retirement plans**

   Contributions to retirement plans such as 401(k) and various IRAs can lower your taxable income. For instance, you can contribute up to $18,000 a year to a 401(k) and $5,500 to a Traditional IRA – and more if you are age 50 or older. This will directly reduce your taxable income for the year.

3. **Manage retirement withdrawals**

   If you're retired, manage your withdrawals from retirement accounts to optimize your taxable income.

   Also, be sure to account for income when you can't control its timing. For example, regular Social Security payments (which may be partially taxable), as well as required minimum distributions from Traditional IRAs after age 70 ½, may push you into a higher tax bracket if you are not careful.

4. **Harvest investment losses**

   If you have investment losses, consider selling them at a loss before the end of the year to use a strategy called tax-loss harvesting. Investment losses can be used to offset capital gain income, plus $3,000 of ordinary income.

   Knowing the rules in this area can be a great opportunity to manage your tax bill. For instance, you must separate short-term investments (those you've held a year or less) from long-term investments, and net out the losses and gains in each category separately. Any excess losses after you're done can then be used to offset remaining capital gains, or up to $3,000 of ordinary income.

   Also beware of the "wash sale" rule, which says that after selling an investment for tax-loss harvesting, you can't buy a "substantially similar" asset for at least 30 days.

5. **Shift deductions**

   If you itemize your deductions, there are many ways to reduce your taxable income by managing these deductions. Here are some ideas on how to do this:

   - Since most interest on your mortgage is tax-deductible, consider making your January payment in December. That way there is an additional interest payment available for this tax year.
   - While medical deductions are somewhat limited, it could be a good time to take care of those appointments and procedures you've been putting off. Schedule appointments before the end of the year so that you can deduct any unreimbursed expenses this year. Also, pay any unpaid doctor bills this year. Special planning is required here, as your medical expenses must exceed 10 percent of your adjusted gross income before they impact your taxable income.

- Consider donating to a charity before the end of the year. Most donations to qualified charities are tax-deductible. Keep accurate and detailed records of all your donations.

If you are looking for ways to reduce your taxes, give us a call at 732-381-8887. We would be more than happy to help you determine which tax planning options are best for your situation.

PLAN NOW FOR A SMOOTH FILING EXPERIENCE

As important tax records start filling mailboxes, how can you make sure your tax preparation goes smoothly and efficiently this year? Here are some tips:

1. **Keep it all in one place**. It seems obvious, but how often have you found yourself going through piles of paper looking for that elusive 1099 tax form or charitable deduction receipt? Store all documents in one place. If you do only one thing this year, do this.
2. **Sort.** Now that everything is all together, sort your information into the same buckets used on your tax return. At a minimum, sort the information into the following basic categories. If you have a lot in one category, sort that stack into the subcategories:

   Income: Wages (W-2), alimony, business income (1099-MISC, K-1), interest income (1099-INT), dividends (1099-DIV), gambling winnings (W-2G), Social Security, investments (1099-B) and other income items

   - Income adjustments: Student loan interest, alimony paid, educator expenses, moving expenses, other education expenses, IRA contributions and HSA/MSA contributions
   - Itemized deductions: Taxes paid, charitable contributions, interest expenses (mortgage and home equity), medical and dental expenses, investor expenses, casualty and theft losses, unreimbursed employee expenses
   - Credit information: Child and dependent care expenses, other credit-related expenses, adoption expenses, education expenses
   - Business/rental: Sort income and expenses for business activity, hobby activity or rental unit

   Note: This list is not all-inclusive. It's here as a starting point to help you sort your information and streamline your filing.
3. **Create a "not sure" bucket.** There may be things you receive that you are not certain you'll need for tax filing purposes. These items should be gathered in one place for review.
4. **Sum it up.** Once the information has been categorized, create a summary of the information. This summary can be a filled-out copy of a tax organizer or it could be a simple recap you create.
5. **Check for missing items.** Pull out last year's tax return and create a list of things you needed last year. Use this as a checklist against this year's information. While this process will not identify new items, it will help identify missing items that qualified in prior years.
6. **Finalize required documentation.** Certain deductions require documentation to qualify your expenses. Common areas that require this are: business mileage, charitable mileage, medical mileage, moving mileage, noncash charitable contributions and certain business expenses. These records should be maintained throughout the year for deductions, but now is a good time to make sure they are complete and ready to go for tax filing.

HOW EARLY ROTH IRA FUNDING CAN MAKE YOUR CHILD A MILLIONAIRE

As a parent, you want to do whatever you can to make sure your children have a bright future. This includes enhancing their financial security. While there are a lot of savings options out there, one of your best strategies just may be a twist on the typical Roth IRA.

Roth IRAs Are for All Ages

A Roth IRA differs from a Traditional IRA in that contributions are not tax-deductible, but withdrawals at retirement can be tax-free. Up to $5,500 per year can be deposited into a Roth (under age 50), limited only by the account owner's earned income. What is not commonly known is that a Roth IRA can be opened at any age. As long as your child has earned income, he or she can participate in a Roth IRA.

The power of this strategy comes into play when contributions are started early and made over regular intervals. For instance, a contribution of $3,000 per year starting at age 12 at an 8 percent annual compounding rate will result in a balance of more than $1 million by age 53.

Early Roth IRAs Pay in Other Ways

Roth IRAs can also be used to help your child pay for college without incurring an early withdrawal penalty, although some amounts withdrawn may be subject to income tax. In addition, a Roth balance will not be held against your child when applying for need-based college financial assistance. And as long as the Roth has been opened for five years or more, your child can use up to $10,000 to help pay for his or her first home. For home-buying, there is no early withdrawal penalty and the amount taken out is not subject to income taxes.

The Roth Challenge: Earned Income

The big challenge in setting up a Roth is to create legitimate earned income for your child, which is necessary to fund an account. If you own a small business, consider employing your children to help clean up around the office. Consider part-time jobs or babysitting. As long as you can prove there is appropriate income to support the annual contributions to their Roth IRA, you can take advantage of this tax-free savings opportunity.

Leveraging a Roth IRA with the power of compound earnings takes planning, persistence and skill – but it certainly can be done. Call our office to discuss the best strategy for your family.

DON'T COUNT ON THESE TAX BREAKS FOR 2017

Three tax breaks expired permanently in 2016, so don't count on these when you file your 2017 taxes:

- **Home mortgage insurance premium deduction.** If you bought your home with less than a 20 percent down payment, banks typically require you to pay for home mortgage insurance. The ability to deduct the cost of that insurance from an itemized return expired in 2016.

  Tip: Not much can be done here, other than paying down your mortgage to eliminate the need for this insurance.
- **Tuition and fees deduction.** A tax break to deduct up to $4,000 of tuition and fees from accredited educational institutions is now expired.

  Tip: Leverage other educational tax breaks such as the American Opportunity Tax Credit and the Lifetime Learning Credit.

- **Reduced senior medical expense threshold.** Seniors age 65 and older were able to deduct the cost of medical expenses greater than 7.5 percent of their adjusted gross income, which was a lower threshold than normal. They lose that benefit in 2017, when the threshold will be 10 percent for everyone.

  Tip: Plan for two years of medical procedures if possible. This way you can load up your medical expenses into one year to take advantage of the new, higher threshold. This is especially important if a family member has unexpected medical bills. Getting all the billing into one tax year becomes more important than ever.

Keep in mind we may see these tax breaks return if Congress acts to reinstate them.

Should you have any questions, please contact us.

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Year-End 2017: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us. ©MC