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Modern asset class investing principles, research, and perspective for long-term investors

Tax Planning With Your Financial Advisor

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Chances are you rely on your financial advisor to help with financial planning, retirement planning, and investment management. However, not everyone realizes that a properly qualified financial advisor can help with tax planning, too.

Because financial advisors possess a deep understanding of your overall financial situation, they can tailor tax strategies that align with your specific goals. Financial advisors with tax planning experience can:

1. Identify opportunities for tax savings
2. Guide you through complex tax regulations
3. Show you how to optimize your tax outcomes

To make sure tax considerations are seamlessly integrated into your financial plan, here's a primer on some of the ways you can work with your financial advisor on tax planning.

What Is Tax Planning?

At a high level, tax planning is about taking a proactive approach to managing your financial affairs to minimize tax liabilities. It encompasses a range of strategies aimed at optimizing your tax situation, such as taking advantage of tax deductions and tax credits, structuring your investments in a tax-efficient manner, and considering the tax implications of charitable giving and estate planning.

Tax planning also plays a key role in retirement planning. If you don't understand how your retirement income will be taxed or what limitations may exist, you could end up with less money in retirement than you expect. A tax-smart financial advisor can help you avoid common mistakes through a range of tax diversification and tax planning strategies.

Essential Tax Planning Tips from a Financial Advisor

Given the impact taxes can have on your financial and investment plans, it makes sense to explore several different tax planning strategies with your financial advisor. Some of the tax tips your financial advisor may share with you include strategies for:

Tax-Efficient Investing

One of the best ways to reduce your tax bill during your working years is by maximizing your contributions into retirement accounts like a 401(k), 403(b), or Traditional IRA. As tax-deferred accounts, these investments reduce your taxable income while helping you save for retirement with earnings that grow on a tax-free basis.

However, it's also important to keep tax diversification in mind. Tax-advantaged accounts, such as a Roth 401(k), Roth IRA, Health Savings Account (HSA), or 529 College Savings Account, are taxed differently: You're taxed at the time of contribution, but earnings are not taxed, and withdrawals are also tax-free, provided you meet certain qualifications for each account.

A tax-savvy financial advisor can help you decide how best to allocate your investment dollars to reach your financial goals while minimizing taxes—and can also work with you to maximize the tax-efficiency of your investment holdings as your financial situation changes.

Minimizing Capital Gains Taxes

Whenever you sell a taxable investment, you will likely owe capital gains taxes or realize a capital loss. However, by planning in advance, you may be able to keep those taxes to a minimum.

For instance, with a strategy called tax-loss harvesting, you can use capital losses to offset up to $3,000 in annual capital gains—reducing the amount of tax you owe for the year. On the flip side, a strategy called tax-gain harvesting could reduce the capital gains taxes you owe if you sell investments at a profit in years where your tax rate is lower than normal. An experienced financial advisor should be able to help you employ these strategies as required.

Roth Conversions

A Roth conversion involves transferring money from a Traditional IRA or 401(k) to a Roth IRA. Roth accounts come with certain advantages compared to traditional accounts. For instance, unlike tax-deferred accounts, where you need to withdraw required minimum distributions (RMDs) beginning at

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age 73, Roth accounts have no RMDs. Additionally, you won't owe taxes on any qualified withdrawals you make from a Roth account.

That said, these benefits come with a price. When you make a Roth conversion, you must pay taxes on the converted funds. As such, Roth conversions only make sense in certain circumstances (e.g., if you expect to be in a higher tax bracket in future years). Given the tax implications associated with Roth conversions, it's important to work with a knowledgeable financial advisor to assess if this strategy is right for you.

Charitable Giving

With the standard tax deduction threshold rising, many taxpayers no longer itemize their charitable deductions. However, there are tax planning strategies your financial advisor can share with you if you fall below those minimum thresholds. For instance, rather than itemizing your deductions each year, you may be able to accumulate your deductions for items such as medical or charitable expenses and itemize them every second or third year—positioning you to optimize your tax outcomes on an annual basis.

Another way to leverage this "bunching" strategy is by setting up a Donor Advised Fund (DAF). Contributing to a DAF triggers an immediate tax deduction while allowing you to allocate funds to the charity of your choice over time.

If you already take RMDs, you may also want to consider a Qualified Charitable Distribution (QCD), which lets you directly route distributions from your retirement accounts to a qualified charity—reducing your taxable income accordingly.

Tax Planning for Financial Success

Just like with financial planning, tax planning requires a customized approach that takes your personal circumstances and goals into account. A financial advisor who has a comprehensive view of your financial picture is ideally placed to deliver tax planning support tailored to your needs. Beyond advising you about the impact of changing tax laws and regulations, your financial advisor can help adapt your financial plan as your circumstances change.

This information is not intended to provide individualized tax advice. Discuss your specific situation with a qualified tax professional.

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