# Tax-Smart Investing: Six Time-Tested Strategies to Help You Keep More of What You Earn

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Over the past several months, there has been plenty of speculation as to whether the current administration will make progress in revamping the federal tax code before year-end. As a Financial Advisor for nearly 35 years, I have experienced six presidential administrations and throughout each regime, I have maintained a focus on goals-based investing and tax planning strategies that has remained timeless.

**As 2017 comes to a close, the fourth quarter is always a good time to take stock of your investments and prepare for the year ahead.** I recommend reviewing your overall portfolio to determine if action is required before any December 31st deadlines. It's important to ensure your portfolio is properly structured to support your long-term goals, while minimizing the impact of taxation in 2017 and the years ahead.

## Six Time-Tested Strategies

**Tax management, like all financial planning fundamentals, is based on the premise that small changes made over time can have a significant impact on your lifetime wealth accumulation goals.** Good investment returns are important. But over time, comprehensive tax management may reap even greater gains. Here are six strategies to consider before the start of 2018 to help keep your money growing.

## #1- Harvest Tax Losses

With the equity markets having another strong year, now is the time to review all your taxable accounts to determine the amount of capital gains you've achieved to date. Before year end, consider offsetting all or some of those capital gains with any losses you may have experienced. This strategy - called tax harvesting - allows you to offset taxes on your gains and income, so you can keep a larger percentage of your returns. Consult your tax advisor for matters involving taxation and tax planning.

## #2 - Maximize Retirement Account Contributions

Are you saving as much as you can in your tax-advantaged accounts? One of the best things you can do for your future is max out your retirement plan contributions before the December 31st deadline. That's because contributions to a 401(k), 403(b) and traditional IRA are tax-deferred. You only pay taxes when you take disbursements, usually in retirement. This means you pay less tax today, while a larger portion of your income continues to grow tax deferred over time.

In 2017, the maximum you can contribute to a 401(k), 403(b) is $18,000. If you are 50 years of age or older, you may also take advantage of the catch-up contribution - which is worth an additional $6,000 - for a total of $24,000. You should also consider maximizing your IRA contributions. For both traditional and Roth IRAs, the maximum is $5,500. With the catch-up contribution at $1,000 for those 50 and older, you can contribute up to $6,500.

## #3 - Be a Smart Giver

Regardless of what happens with the current tax law, gifting is always a good idea. Consider making cash gifts to family, friends and charitable organizations before year-end. This strategy helps reduce the value of your estate, while helping others. In 2017, individuals can transfer up to $14,000 per recipient without incurring tax. Spouses can also gift up to $14,000 per recipient for a grand total of $28,000 per household.

Appreciated investments that have been owned for more than a year can be donated to qualified charitable organizations. You can also donate to charities using a traditional IRA, if you are over the age of 70½. This is one of the most efficient ways to leave wealth to a charity, since the distributions (up to $100,000 a year) can be donated to the charity, but will not be received as income.

## #4 - Rebalance In Retirement Accounts

I believe portfolio rebalancing in your retirement accounts is a smart strategy, whether you do it at year-end or at the beginning of the new year. Simply stated, rebalancing is the process of realigning the weightings of the assets within your portfolio. It involves periodically buying or selling assets within your portfolio to maintain the desired asset mix on which you originally built your portfolio. It is important to maintain your desired asset allocation, since investment portfolios can drift over time from their original targets. The goal of rebalancing is to keep your asset mix in line with your risk tolerance level. Rebalancing does not guarantee a profit or protect against a loss.

## #5 - Manage Your Tax Bracket

Are you getting ready to retire? Are you nearing age 70½, when you'll need to begin taking Required Minimum Distributions? As you get closer to these two important milestones, it's important to be aware of your current tax bracket. Sometimes it's a good idea to begin taking IRA account distributions early, especially if you have a large retirement account. It's possible you could be in a lower bracket before you're forced to take Required Minimum Distributions.

## #6 - Structure Your Portfolio to Be as Tax-Efficient as Possible

An important long-term strategy is to make your investment portfolio as tax-efficient as possible. This may not have a large impact on this year's tax bill, but it can make a big difference for 2018 and beyond.

When working with investors, I advise them to follow this three-step rule:

1. **Goals-Based Planning.** Select investments that are designed to help them reach their long-term goals.

2. **Risk & Time Frame.** Create a portfolio based on their personal risk level and their time frame for investing.

3. **Tax Efficiency.** While taxes are not the most important factor, they can have a significant impact on results over time, so understanding the tax implications of each component of your portfolio is important.

## Which Strategies Are Right for You?

**At the time of this writing, it is still unclear as to what changes will be forthcoming to the federal tax code.** Regardless of these anticipated revisions, there are a number of smart strategies to consider as the year comes to a close. How you combine these various strategies can make a significant difference when it comes to building wealth over the long term. While I believe each idea can be helpful on its own, in concert, they can provide compound benefits that can really move the needle. If you have an advisor who will work with you to put together a strategy where all the pieces work together, you'll have a well thought-out plan that is equipped to handle any tax environment ahead.

## About the Author

**Robert D. Finan** is a Senior Vice President, Financial Advisor and founding member of the Finan Group at Morgan Stanley. A wealth management professional for more than 34 years, Bob has dedicated his entire career to helping individuals, families and small business owners achieve their financial goals. His approach focuses on a comprehensive wealth management plan and a commitment to providing outstanding service and advice. Robert Finan was recognized by Barron's as one of America's Top 1,000 Financial Advisors in 2010, 2011 and 2013 and was named to the Financial Times' list of America's Top 400 Advisors in 2015.



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