Wealth Management # 4 – Wealth Enhancement

Investing isn't only about making money, it's about keeping as much of the profits as possible. Therefore a successful wealth management process should include a plan for legitimately minimizing taxes, both for the short term and over the long term. With present tax rates being high, and potentially going higher, minimizing taxes can greatly enhance your wealth.

It's also important to realize that there are multiple types of taxes, the ones most directly impacting investors being income tax, capital gains tax, and federal transfer (or death) taxes. As these taxes change often, and as each investor's tax situation is unique and can change during their lifetime, tax planning is an ongoing activity. You should consult with your tax professional for specific tax advice, and that advice should be incorporated into your financial plan.

There are several ways to minimize taxes. Examples include:

1. **Use IRAs and Qualified Retirement Plans**
   Tax deferred accounts enable you to invest money that would otherwise have been paid in tax. This provides the potential for these accounts to grow more rapidly than an account on which tax is paid each year. Roth IRAs and Roth 401(k)s can even provide the potential for profits to be tax free. Also, many companies match employee contributions to 401(k)s, thus company money is used to pay the deferred taxes.

2. **Gifting to Heirs**
   Up to $14,000 per recipient (as of 2013) can be gifted without filing a gift tax return.

3. **Gifting to Charities**
   Charitable gifts are often tax deductible, and the deduction can be used to offset taxes due elsewhere. Also, highly appreciated assets can be given for the charity to sell tax free, rather than the investor selling them and incurring taxes.

4. **Trusts**
   There are several types of trusts designed to move assets out of an estate that would otherwise be subject to 'death' taxes.

5. **Insurance Products**
   Insurance products such as annuities and life insurance can defer taxes similar to an IRA. In addition, life insurance can provide leverage plus, if structured correctly, a payout to your beneficiaries that is exempt from taxes.

6. **Family Controlled Entities**
   There are a number of entities such as C and S corporations, limited liability companies, family limited partnerships. Each type of entity has its own advantages and disadvantages, but can help minimize taxes.

7. **Cost Basis**
   Although capital gains are paid on appreciation, the cost basis is "stepped up" to fair market value upon the death of the owner. It is important that this step up occurs appropriately, otherwise the heir(s) will pay excessive tax upon the sale of the asset.

With so many moving parts with respect to taxes, it is important that your tax advisor work closely and effectively with your financial advisor.

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