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COROMANDEL WEALTH MANAGEMENT

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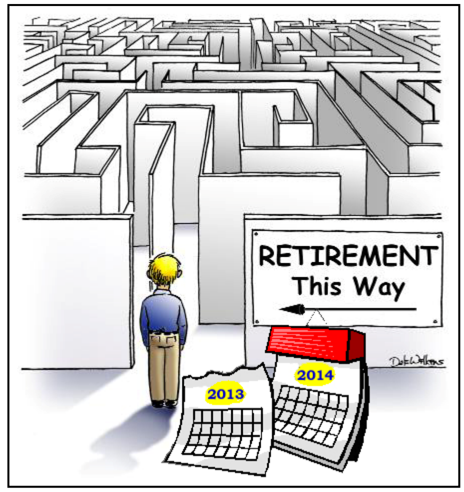
The Taxman cometh… but there's still time

Navigating the Retirement Maze



"Don't ask me what I want it for
If you don't want to pay some more
'Cause I'm the taxman, yeah, I'm the taxman."

- Lyrics from the Beatles song "Taxman" (1966)

It's the holiday season: Thanksgiving, Christmas, Black Friday, Cyber Monday… so how about "Stay in the black December"? There's not much left of 2013 in which to execute last-minute tax strategies, but that's no excuse to let the "Taxman" have any more than his due. So let's explore some strategies for keeping your tax bill as low as legally possible.

$250K is the magic number

The American Taxpayer Relief Act of 2012 (ATRA) didn't provide any "relief" for high income families. If you fall into the category that the IRS considers to be "wealthy" – $250K or more in taxable income for joint filers, $200K for singles – above those thresholds you'll get hit with a 3.8 percent Medicare surtax on unearned income, and an additional 0.9 percent on earned income. At higher income levels, there is a phase-out of personal exemptions and up to 80 percent of itemized deductions, plus a 20 percent capital gains rate and a 39.6 percent marginal rate if you exceed $450K (joint) in taxable income. Thus, if you have a lot of realized market gains to report this year, you should be looking for additional deductions that would keep you below those limits.

Harvest those losses (and gains)

Selling losing mutual funds and securities to offset taxable gains will help lower your tax bill, but use those losses prudently by paying attention to your long versus short term gains. With long-term (L/T) gains taxed at lower rates than short-term (S/T) gains, don't waste a L/T term gain by offsetting it with a S/T loss. Do the math first before "harvesting" any losses. If you have net long-term gains, and don't forget those mutual fund distributions coming later this month, you might be better off paying your L/T gains tax in 2013 and taking your losses in 2014. Then, if the market next year isn't quite as generous as it has been this year, use those losses to offset up to $3,000 of income.

If you find yourself in a lower income tax bracket – under $72,500 of taxable income for joint filers – then you'll pay a 0 percent rate for L/T capital gains up to that amount. Don't waste this opportunity. Harvest your L/T gains to bring you income up to that level, and get a free pass on taxes for those gains.

Feed your 401(k) plan

One of the easiest ways to reduce your tax bill is to max out your tax-deferred accounts. 401(k) and 403(b) accounts can be funded up to $17,500 – $23,000 if you're 50 or older – which reduces your taxable income. Aside from immediate tax savings, a key consideration for funding tax-deferred accounts is whether you expect to be paying at a higher or lower tax rate when you retire. If you expect to be taxed at a lower rate in retirement, then you'll end up with more after-tax income. For those of you who expect to have a higher tax rate in retirement, look into Roth 401(k)s and Roth IRA conversions.

'Tis the season for giving

Charitable deductions are both good for your favorite charities and for your tax bill if you itemize. Congress extended through 2013 the ability to donate some of your required minimum distribution (RMD) up to $100K to charitable institutions without being taxed on those withdrawals. Donating appreciated securities is one of the best win-win charitable giving strategies: you avoid the capital gain on the appreciation, and you can deduct the full amount of the donation. Just make sure to do a direct donation of the securities, as selling them yourself and donating the proceeds will stick you with a tax bill on the gain.

Plus the usual stuff (and the AMT)

Need a few additional deductions before year end? Prepay your 2014 property taxes, mortgage, and state income taxes. The only caution here is that these payments won't reduce your Alternative Minimum Tax (AMT), so again, do the math first before accelerating them into 2013. Alternatively, you might be able to reduce or eliminate an AMT payment by delaying preference item payments into 2014, but you first should compare your marginal tax rate to the 28 percent AMT rate. Talk to your advisor or accountant about this.

The only constant with taxes is change

The only certainties in life are death, taxes, and the fact that that the tax laws will always be changing. Make sure that you, your advisor and your accountant are up-to-date on the current tax laws, and you'll have more cash with which to deck your halls year-round.

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