Smart Ways to Slash Your Tax Bill

Description

Consider investment strategies to help reduce your taxes.

Investing your money can be a great way to help build for the future. However, there are many factors to take into account when making investments, such as the specific tax treatment of each investment vehicle. Here are some potential tax considerations to keep in mind when making your investment decisions.

Understanding account benefits:

Traditional, SEP and SIMPLE IRAs and other retirement plans such as a 401(k), 403(b), or governmental 457(b) plans, offer tax-deferred growth potential. You pay no taxes on any investment earnings until you withdraw the money from your account. Therefore, these accounts have the potential to save you a lot in taxes thereby affording you more growth and/or savings potential.

Roth IRAs offer tax-free growth potential. Investment earnings can be withdrawn tax-free in retirement if the account has been opened for more than 5 years and you are at least age 59Â½, you are disabled, or the payment is made to your beneficiary after your death.

In addition, with a Roth IRA you may be able to take advantage of the first-time homebuyer exception. Contributions to a Roth IRA and are made with after-tax dollars, so there is no tax deduction.

Understanding the tax rules for different accounts and investments can help you be strategic in your choices and help you reap the potential benefits. As always, consult with a tax advisor for guidance specific to your situation.

Determine how long you will hold the investments:

Federal tax rules provide preferential tax treatment for assets held long-term in taxable accounts. Investments held for more than 1 year are eligible for the long-term capital gain tax rates. Capital gain on assets held for one year or less, short-term capital gain, are taxed at ordinary income tax rates which are higher than long- term capital gain tax rates.

Depending on the type of investment you choose, you may have to pay taxes on any income you receive while you hold it, such as dividends or interest. Otherwise, you will pay taxes on your realized capital gain when you sell it â?? the difference between your adjusted cost basis and the sales amount of the investment.

Using losses for your benefit:

When investing, there is risk of losing value on your investments. If an investment is held in a taxable account, you may use the capital losses to offset capital gains and help reduce your tax bill. If your net capital losses exceed your net capital gains for the year, you are allowed to use up to **$3,000** of capital losses to offset ordinary income and carryover any remaining losses to future years.

Want personalized advice?

Schedule a complimentary consultation today, and letâ??s get started on securing your financial future.

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