BOSTON FINANCIAL MANAGEMENT

Managing your Taxes

At Boston Financial Management, we aim to be as tax efficient as possible through the course of managing your investment portfolio. Year-end presents some opportunities as we start to have a better understanding of our client's tax picture. There are a couple of strategies to consider to help save on your tax bill.

1. Implement tax loss harvesting:

Tax loss harvesting is a short-term strategy which involves the sale of stocks, bonds and mutual funds, in taxable accounts, that have lost value in order to off-set taxes owed on capital gains and income. Losses can off-set regular income by up to $3,000 if they exceed gains. Losses over $3,000 threshold can be carried forward in future tax years.

- When selling investments at a loss, we can replace them with reasonably similar investments, and then off-set realized investment gains with those losses. Once the loss is taken, a similar security could be purchased to keep the overall asset allocation consistent. The end result is that less of your money goes to taxes and more stays invested and working for you.
- Be mindful of the wash sale rule: if you (or your spouse for joint filers) sell a security at a loss and buy the same or "substantially identical" security within 30 calendar days before or after the sale, the loss is not usable on that year's tax return even if the trades occur in different accounts. We would recommend seeking advice from a financial professional in order to avoid triggering the wash sale rule. It's important to understand what the IRS sees as substantially identical.
- If you have accounts outside our management, keep your Wealth Manager informed of other capital gains, losses or any tax loss carry forwards so that any portfolio tax planning we are doing for you encompasses your entire financial picture.

2. Contribute to your retirement:

Review how much you're contributing to each of the tax-sheltered account types that are available to you: IRAs, company retirement plans, and health savings accounts. We always recommend you contribute as much as you can to your retirement plan. If your employer offers to match your 401k plan contributions, make sure you contribute enough to take full advantage of the match.

CONTRIBUTION LIMITS FOR 401(K), 403(B), AND MOST 457 PLANS

	2019	2020
Employee pre-tax and Roth contributions [Age 49 and under]	$19,000	$19,500
Employee after-tax contributions and any company contributions	$37,000	$37,500
Maximum annual contributions allowed [Age 49 and under]	$56,000	$57,000
Additional employee pre-tax and Roth contributions [Age 50 and older]	$6,000	$6,500
Maximum annual contributions allowed [Age 50 and older]	$62,000	$63,500
Source: https://nb.fidelity.com/public/nb/default/resourceslibrary/articles/irslimits		

3. Watch out for mutual fund distributions:

Mutual funds distribute capital gains toward the end of the year. If you are buying into a fund late in the year, check to see if they have already made the distribution. You do not want to essentially buy someone else's large capital gains distributions. Fund companies begin projecting their capital gain distribution estimates in November. At that time, they provide data that indicate the size and the date of the projected distributions. In situations where the fund's capital gain distribution is larger than the unrealized gain or loss of the holding, selling the fund and taking the smaller gain or loss generates the best tax result.

4. Reevaluate your marginal rate for municipal bonds.

Many people could be in lower brackets in a post TCJA environment, which means the after-tax benefit of municipal bonds could be lower relative to the after-tax benefit of other bond alternatives. Discuss your expected marginal tax rate with your tax preparer and adjust your portfolio accordingly.

5. Potential tax changes:

The upcoming presidential election may be pivotal for the future tax policy as major parts of the Tax Cuts and Jobs Act become closer to expiration and the economic recovery from COVID-19 becomes one of the defining issues of the next term. No matter what the outcome on Election Day, it is likely to impact tax policy for several years to come, as both candidates have committed to reforming the tax code. The Tax Cuts and Jobs Act of 2017 (the 2017 Tax Act) effected a number of tax changes that benefitted high-net-worth individuals and businesses including:

- lowering the income tax rates
- increasing the standard deduction
- reducing the alternative minimum tax
- nearly doubling the estate and gift tax exemption
- a steep drop in the corporate tax rate

With the upcoming Presidential and other elections this November, observers have expressed concern that many of the foregoing benefits, as well as benefits that were in effect prior to enactment of the 2017 Tax Act, may be repealed. For this reason, there are steps our clients may consider in order to take advantage of these endangered benefits, including:

- **Generating additional income:** If you are concerned about increases in your tax bracket as soon as next year, consider accelerating some income into 2020 to pay the tax on it in the current year.
- **Generating additional capital gains:** If you believe capital gains will increase, you may want to take additional gains from your portfolio this year.
- **Charitable contributions:** evaluate the timing of it in light of how the value of the potential tax deduction would change if future tax rates increase or if limits change on charitable deductions.
- **Maximizing any transfers** that take advantage of tax exclusion.

Tax savings may seem minimal, but we know when compounded over time they can be significant. We understand that it is not what you make, but what you keep that matters most.