Efficient Tax Strategies and Important Tax Birthdays

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Tax efficiency is the measure of how much an investment's return you keep after taxes. Knowing your tax bracket is a good starting point, however, today's tax code is quite complex. Understanding the tax code rules, managing how you generate income, choosing your investments with an eye on taxable income generation and properly utilizing potential tax deductions can help you become more tax efficient. In general, there are three major strategies that investors should consider when they are attempting to manage their federal income taxes

Managing Taxes - Choosing the most appropriate investments for your situation is always your best choice. When considering your investment plan it is always helpful to keep an eye on taxes. For example, an investor can choose to place investments that generate the most taxable income in their tax-advantaged accounts. Tax efficient investments like municipal bonds or stocks you hold for long periods of time could generate lower tax bills than taxable bonds. Managing taxes can potentially help investors save money.

1. **Deferring Taxes** - A powerful strategy for many investors can be tax deferral. In the investment world, "tax deferred" refers to investments on which applicable taxes (typically income taxes and capital gains taxes) are paid at a future date instead of in the period in which they are incurred. One of the most popular forms of tax deferrals is the use of a retirement account. IRAs, 401(k)s, 403(b)s and SEP plans are some of the more common ways that investors save for retirement in a tax deferred account.

2. **Reducing Taxes** - Tax deferred accounts and even tax efficient investments may reduce your tax bill, but they do not eliminate taxes. There are a few strategies available to investors that potentially create income that generally do not generate federal taxes. The list includes certain municipal bonds, Roth IRAs and some college savings accounts. Placing investments in the most tax efficient account may sound complex, but sometimes the choices are easier. For example, some assets like equities you hold for a long term (that qualify for capital gains treatment) or municipal bonds may generate smaller tax bills than taxable bonds that generate ordinary income. You could consider holding those assets in a taxable account. While tax implications should not dictate your final decisions a qualified financial professional can keep you aware of their impact.

Currently, investors face a multi-dimensional tax system. There are seven different Federal ordinary income tax brackets (10%, 15%, 25%, 28%, 33%, 35% and 39.6%), three different capital gains tax brackets (0%, 15% and 20%), a 3.8% net investment tax income tax (NIIT), Personal Exemption Phase out (PEP) and Pease limitations. Investors not considering the tax impacts of their financial decisions may end up keeping less than those who do.

When it comes to taxes, don't procrastinate.

Many taxpayers do not look at the tax implications of their investment holdings. If you spend some time up front thinking about tax planning, you can potentially maximize your opportunities and minimize your tax bill. A skilled financial professional can help with this process. Knowledge, strong organization and proper planning can help you comply with the tax laws and at the same time could allow you to take advantage of tax saving options.

Tax efficient strategies could include:

- Maximizing retirement accounts
- Charitable gifting
- Tax deferred and tax free accounts
- College saving accounts
- Roth IRA or Roth IRA conversions
- Tax loss harvesting to offset gains
- Matching investments with the right account type

Some Important Tax Birthdays (starting at age 50)	
Age 50	**Allows for catch-up contributions to retirement plans.**
Age 55	**Allows retirement plan distributions to terminated employees without the 10% penalty.**
Age 59½	**Allows distributions from an IRA, annuity, or other retirement plan without penalty.**
Age 60 (if widowed)	**Allows for start of widow/widower benefits from Social Security.**
Age 62	**Allows for starting early Social Security benefits.**
Age 65	**Allows for enrollment in Medicare and the government drug plan.**
Age 65-67	**Allows for full retirement benefits from Social Security (depending on your year of birth).**
Age 70½	**To avoid penalties, a mandatory required minimum distribution from retirement accounts must be taken no later than April 1st of the year following the year you turn age 70½.**

The table above contains some important tax birthdays (after the age of 50) that can dramatically affect your income taxes. It is very important that as you plan for or reach any of these milestone birthdays that you are working with a qualified financial advisor who can review your specific situation to determine what tax reduction strategies would be best for you.

Here are more specifics on a few of those ages:

Age 50: If you are age 50 or older as of the end of the year, you can make an additional catch-up contribution to your 401(k) plan (up to $6,000 for 2016), and Section 403(b) tax deferred annuity plan (up to $6,000 for 2016). To do this you must first check to see that your plan permits catch-up contributions. You can also make an additional catch-up contribution (up to $1,000) to a traditional IRA or Roth IRA.

Age 55: If you permanently leave your job for any reason after you turn age 55, you can receive distributions from your former employer's qualified retirement plans without being socked with a 10% premature withdrawal penalty tax. This is an exception to the general rule that distributions received before age 59 ½ are hit with a 10% penalty.

Age59½: You can receive distributions from all types of tax-favored retirement plans and accounts (IRAs, 401(k)s, pensions, and the like) and from tax-deferred annuities without being socked with the 10% premature withdrawal tax.

Age 70½: You generally must begin taking annual Required Minimum Distributions (RMD) from your tax-favored retirement accounts (traditional IRAs, SEP accounts, 401(k) accounts, and the like. However, you do not need to take any RMD from your Roth IRA.) You must calculate your minimum distribution and if you do not take out the minimum distribution, the difference between what you should have taken out and what you actually took out is usually subject to a 50% penalty!

These tax laws are very important because if you choose to ignore the RMD rules there can be dire consequences. Planning for this event is critical and provides a great opportunity to seek the advice of a knowledgeable professional. The IRS can assess a penalty tax equal to 50% of the shortfall between the amount that you should have withdrawn for the year and the amount that you actually took out. Unfortunately, although these rules seem simple, they often are not! For example your first RMD is for the year you turn 70½. However, you can postpone taking out your first RMD until as late as April 1st of the following year. If you chose that option, however, you must take two RMDs in that following year (one by April 1st, which is for the previous year) plus another by Dec. 31st (which is the one for the current year). There's one more exception. If you're still working after reaching age 70 ½, and you don't own over 5% of the business that employs you, the tax law allows you to postpone taking any required minimum withdrawals from that employer's plans until after you've retired.

In today's highly complex and rapidly changing world, investors are faced with an incredible array of investment choices. Many financial advisors are happy to help you invest your hard-earned dollars, but that is only one part of achieving your overall financial goals. Some advisors are not well versed in certain critical areas or do not have access to other professionals that may coordinate those areas for them. **If you have any questions on your situation call us.**

Does your financial professional even look at your tax return?

If you do not have the appropriate financial advisor, this could result in a tax headache for you.

We believe that investors deserve more and should receive more!

If your current financial professional is not providing this service then call us at (918) 794-5544 to schedule a complimentary financial check-up.

Are You a Candidate for a Tax Headache?

The wrong financial professional can potentially end up causing you a huge headache. If you are not sure whether you have the right financial professional, please take this quick test. It can help you see if your current advisor is accurately reviewing opportunities and strategies to help reduce your tax bill.

Please answer Yes or No to all of the following questions.

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1. Did your investment professional do a full review of your tax forms and show you how your investments are impacting your tax forms?...YES NO
2. Did your investment professional review your retirement withdrawal to see if the amount you are taking is appropriate for you?...YES NO
3. Did your investment professional review any interest you earned this year and the sources of that interest to see whether or not this is the most appropriate place for that money?................YES NO
4. Did your investment professional take a look at all of your dividends this year and review the appropriateness of them?...YES NO
5. Did your investment professional review item by item your tax returns and your investment statements to determine if your tax plan is coordinated with your investment plan?......................YES NO
6. Does your investment professional consider tax consequences and tax alternatives each and every time they make a recommendation?...YES NO

If you answered NO to two or more of these questions, you may not be maximizing your tax strategies and you could be a candidate for a

TAX HEADACHE!

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If you'd like a copy of this article sent to someone else who would benefit from this information, please contact Jeri at First Mate Financial (918) 794-5544.

Complimentary Financial Check-up

If you are currently not a client of First Mate Financial, we would like to offer you a complimentary, one-hour, private consultation with Jeri at absolutely no cost or obligation to you.

To schedule your financial check-up, please call First Mate Financial at (918) 794-5544 and we'd be happy to assist you.

This article is for informational purposes only. This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice as individual situations will vary. For specific advice about your situation, please consult with a tax professional or financial professional.

Bonds are subject to market and interest rate risk if sold prior to maturity. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.all examples are hypothetical and not representative of any specific investment. Your results may vary.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change .Roth IRA account owners should consider the potential tax ramifications, age and contribution limits in regards to funding a Roth IRA.

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