FA Financial Alternatives
integrated wealth management

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October 2018

Year-End Tax Planning

If you have not already completed your year-end tax planning, now is the perfect time to do so. Don't wait until December when the holiday rush kicks in and you and your advisors have less time to devote to this very important task.

As we write this newsletter, tax professionals are working overtime to meet the October 15th deadline to file tax returns that were on extension. Once this deadline passes, it will be a perfect time to check in with your tax professional and financial advisor to review 2018 for any overlooked tax reduction strategies and also prep for 2019. Below is a short list of ideas to consider and discuss:

- Should I make a QCD (qualified charitable distribution) from my IRA rather than a normal charitable contribution with cash?
- Should I gift low basis stock to a charitable gift fund rather than directly to a charity?
- Should I bunch my charitable contributions into every other year so they will be deductible?
- Did I max out my retirement plan contributions?
- Should I create a retirement plan if I am self-employed?
- Should I convert Traditional IRA funds to Roth IRA funds - creating additional taxable income to fill up a lower tax bracket? This can be a very effective strategy to reduce the possibility of having a surviving spouse jump into a higher tax bracket at the death of the first spouse.
- Should I exercise stock options to increase my income to use up a lower tax bracket?
- Should I direct more income into my executive deferred compensation plan?
- Have I properly planned to maximize my company's flexible spending account?
- Have I taken advantage of all of my company's before tax benefit plans?
- Should I convert my C Corporation to an S Corporation or LLC or vice versa?
- Should I make capital investments in my business to keep my taxable income below $315,000 dollars so I can qualify for the Qualified Business Income deduction?
- Should I reduce the salary my company pays me in order to reduce the payroll taxes I currently pay?
- Did I maximize my HSA (Health Savings Account)?
- Do I have any capital losses on stocks or other investments that I should realize for tax purposes?
- Did I make all of the $15,000 gifts to family members or to irrevocable trusts that I wanted to make for 2018?

Again, this is just a brief list of things you can address late in the year. Ask your tax advisor and financial advisor for other ideas and strategies that they think you should consider. Consider making this type of tax planning part of your annual tax planning routine - it could save you thousands of dollars in taxes.

Executive Summary

- Now is the time to do a final review of your tax planning with your advisors.
- Year-end tax planning could save you thousands of dollars in taxes.
- Automating the execution of your financial planning and investment decisions will assure their implementation.
- Every business and family needs up to date and accurate books and records.
- Use technology to automate the tracking of your assets, liabilities, income and expenses.

Automate Your Planning & Investing Whenever Possible

If you are a successful person in our society, you are most likely relatively disciplined but also very busy. In spite of being self-disciplined, financial planning decisions often get neglected due to our busy schedules. The problem is nobody holds us accountable, or grades us or pays us for how well we handle our finances. As a result, thoughtful financial planning and follow through often takes a back seat to other more "pressing" issues.

Step one is to make a plan. There is no easy way other than to make it a priority, carve out the time, and do it. If you don't want to do this on your own or know that you won't do it on your own, find a fee-only advisor who does comprehensive planning and work with them.

Once you have a plan, the secret is to automate it. This means setting up the plan so that it will be automatically executed without you having to remember what decisions were made.

For example let's say that you are an executive with a large company that offers the following executive compensation plans: an employee stock purchase plan (ESPP), Restricted Stock Units (RSUs), a deferred compensation plan, stock options and a 401k plan. Let's also assume your portfolio is over weighted to your company's stock and you'd like to gradually reduce this overweight. In addition, you are in a high tax bracket and you'd like to reduce your taxes if possible during your peak earning years. You also want to begin saving money for your kid's college costs, have your mortgage paid off in 10 years, keep your spending to $300,000 per year and aggressively reduce your stock option holdings if your company stock hits certain price targets.

Remember you want to automate your plan so that it will get executed without having to revisit the planning decisions once the planning decisions are made. Here is how automating this plan might look.

1. Sign up for automatic deductions to maximize your 401k contributions.
2. Sign up to maximize your ESPP purchases since they provide you with a 15% discount to the stock price.
3. Sign up to defer 100% of your bonus and 50% of your salary (let's assume this leaves you with only 150k for expenses that year).
4. Place limit orders to sell a specified number of stock options at various predetermined price targets.
5. Set up an automatic mortgage payment that will pay off your mortgage in 10 years, set up fixed monthly contributions to 529 plans for your kids.

This plan does have one thing that cannot be automated and that is selling the RSUs that will be received or options sales at current market prices. But as you can see the plan is set up to not provide enough income for your 300k expenses. It is set up this way intentionally. To have this money for your planned expenses you will be forced to sell RSU's or stock options. Because you must have the money to pay your bills, you will not forget to sell these RSU's or options. Unlike the reverse where you could easily forget to not fund a savings goal.

You would also want to set up all of your expenses and credit cards to be paid automatically as well as any other savings goals that you may have. If set up properly, at the end of the year you will have executed your plan without having had to think about it throughout the year. Not only that but you may end up spending less than 300k because you had to sell investments to make the funds available for these expenses.

Automate the Tracking of your Financial Position and Income and Expenses

For any business, it is important to really know your assets, liabilities, income and expenses on an ongoing basis. Having up to date and accurate books and records is critical to the success of any business whether it be a mom and pop enterprise or a Fortune 100 multinational corporation. And it is no different for personal financial planning.

The good news is that with today's technology it is easy to automate the tracking of your financial position and your income and expenses. Today's technology allows you to see all of your accounts in one place as well as to automatically track your income and expenses. Our firm now uses the robust eMoney platform to help our clients automatically track their financial position and their income and expenses. Doing this will help you save time and more effectively plan and automate your planning decisions.

Spending the time on the front end to get such technology set up properly will save you tons of time in the future as well as providing you a laser like look at your finances on an ongoing basis for the rest of your life.

Summary

Take some time before the end of the year to review your tax planning with your professional advisors.

And don't forget to automate your planning and investment decisions and the tracking of your assets, liabilities, income and expenses. Those that do so will likely be miles ahead of those that don't.

Please call us if you'd like to discuss any aspect of your financial life in greater detail. We hope you are enjoying this beautiful autumn season.

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