

## Looking for ways to avoid tax payments next year



**Q:** I just finished my tax return and I have to pay. Can you give me some tips so this doesn't happen again next year?

**A:** It's time to do some 'tax bracket' management. Wage increases can bump you into a higher tax bracket. The marginal tax rates jump from 10% to 15% then up to 25% and politicians want to add a new 20% marginal rate. Income can be reduced by increasing 401K contributions, funding a tax deductible IRA contribution or deferring income to another year.

Estimate 2016 income and calculate your total tax. Review your current withholding. At these low interest rates, it's not okay to pay a penalty.

Recent stock market volatility has provided tax opportunities. Swap funds with losses in taxable accounts to similar, but not "substantially identical", mutual funds and realize the tax loss. If you believe in a stock that is sizably underwater, you can sell it, take the loss and buy it back after 30 days. There's a risk of a real loss because of unpredictable stock performance.

Speaking of worthless stock, if a company is bankrupt most

brokerages will offer to buy your shares for a penny. Use your original cost basis to compute your loss.

Passive funds are generally more tax-efficient than actively managed funds. Review last year's capital gain and dividend distributions and decide if the funds that you are holding are appropriate.

I'm a big fan of boring municipal bond funds - especially General Obligation and Revenue bonds. Review your fixed income holdings by account. Retirement accounts often hold Treasuries indexed for inflation and taxable accounts hold tax efficient muni bonds. Although income from municipal bond funds is exempt from federal tax, capital gains may be realized. Unfortunate investors who can't claim Florida as their state of residence may have to pay state or local tax on muni bond income. It's also subject to Federal Alternative Minimum Tax.

Analyze whether a Roth conversion makes sense based on the tax owed, ultimate beneficiary, and the number of years that you have to earn back the tax dollars spent on the conversion. Roth IRAs can be reversed or "re-characterized".

Charitable people have excellent choices. Required minimum distributions that are done as qualified charitable distributions soften the tax bite, especially on Social Security and pension income. Transferring appreciated

assets directly to a charity saves capital gains tax. And don't do a Roth conversion if the ultimate beneficiary is a charity.

Dissect your tax return, gather your ideas, and consult a tax or financial advisor.

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