FLORIDA TODAY

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Plan Now For Next Year's Tax Strategy

Q: I just filed my 2013 tax return. What's the best way to plan for this year's taxes?

A: Manage your income and deductions so you can control the controllable. Use your most recent return and estimate your 2014 income. Are you close to the marginal tax rate break? Once you hit taxable income of $73,800 for MFJ (married filing jointly) you jump from paying 15% on the last dollar that you earned to 25%. You can manage these marginal rates by contributing more to your 401(k) if you're working, making a tax deductible IRA contribution if you qualify, or adjusting IRA withdrawals if you're retired.

Planning is more challenging when you have required minimum distributions (RMDs). These are non-negotiable for the over 70 ½ crowd. If you're not required to take distributions (and currently in a lower tax bracket) take IRA distributions (after 59 ½) up to your next tax bracket. This may lower your future RMDs and thus the associated tax.

If you're retired, estimate your cash flow needs. Decide if income should come from a qualified (or pre-tax) retirement account where every dollar is taxed as ordinary income or an after-tax account where only capital gains are an issue. Is it time to consider spending the Roth that is completely tax free money?

Are you itemizing your deductions and are you close to your standard deduction? Calculate the itemized deductions. If you 'bunch' your discretionary medical, real estate taxes, charitable contributions, etc. every other year and take the standard deduction every other year, your total deductions may increase.

For most of us, capital gains rates are incredibly low right now. For the MFJ crowd, it's a 15% rate if you're in the 25% to 35% ordinary income tax brackets. And, if you're in the 15% (or less) marginal rate, your capital gains rate is zero. Goose egg. Nada.

Decide when to start drawing your Social Security benefit. Estimate your life expectancy. If you defer taking SS, would it negatively affect your life style? You get an 8% increase for every year you delay taking your SS benefit and it's prorated monthly. The timing is flexible; you can take SS benefits starting at age 62 and postpone it to as late as age 70.

When you're enrolled in Medicare, the premiums are based on your modified adjusted gross income. When you're taking Social Security, the tax on your benefits is also means-tested. So, when your income is higher, more of your SS is taxed and your Medicare costs more. An option for the RMD crowd is to wait until Qualified Charitable Distributions (QCD) from your IRA are approved again (we're waiting for Washington) and transfer the RMD as a donation. This may lower the tax you owe on your SS and also may lower the cost of your Medicare.

If you're in a low tax bracket, don't waste it. Consider a Roth conversion to reduce the value of tax-deferred accounts, RMDs and future taxes.

Review your taxable investment accounts and see if you have any losses. Rebalance your portfolio, take the losses and deduct up to $3,000 from ordinary income and carry forward the rest.

Tax planning may save you money so start thinking about it now. And be sure to consult your advisors.

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