5 ESSENTIAL PRACTICES OF REDUCING YOUR TAXES IN RETIREMENT

1. BECOME INFORMED

"Just thinking about income taxes often taxes the mind- which is something people once said the IRS couldn't do."

As Learned Hand, former United States Court of Appeals Judge, eloquently stated, "There are two systems for taxation in our country. One for the informed and one for the uniformed." Taxation can oftentimes be viewed as a boring topic, but there are those who see things much differently. Folks who are able to keep more money in their own pockets are anything but disinterested with the subject. As my father once told me, "there is no reason to be more patriotic to Uncle Sam than need be!"

Here are three key changes for 2018 which may alter your contributions to our Great Nation: 1. The standard deduction for both single filers and those filing jointly has doubled. 2. Tax brackets have changed. 3. The individual mandate to have health insurance no longer applies. There is also a new limitation for deductions on state and local taxes as well as the elimination of miscellaneous itemized deductions. It is important for you to be informed on current tax code, but potentially even more important for your financial advisor to be in tune with these changes. It is critical to make sure taxes are a large part of the conversation at this year's annual review.

---

2. IDENTIFY CONCERNS ON TAXES IN RETIREMENT

"Just when you have finally figured out all of the answers, they change the questions!"

Because everyone's situation is different, these changes are going to affect you in a unique way. Does your current advisor talk with you about tax implications each year? If not, you may want to think about it this way: let's say you are a diabetic. You go to your primary care physician who monitors your blood levels and medications, you are in a good spot, right? You are in an adequate spot. What if you could go to a doctor who did the above, but also set you up with a dietician, a personal exercise regime, and a support group to help keep you accountable to bettering your condition? Going the extra mile would surely help your health. The same is true for your financial health when you work with someone specifically designed to work with retirees in a fiduciary capacity.

A fiduciary doesn't simply recommend what is suitable: he recommends what is best.
For advisors who are working as fiduciaries, identifying tax concerns for their clients is second nature. After all, it is their responsibility to be looking out for their clients' best interest at all times. Once you've asked if your advisor works in a fiduciary capacity, there are some other key questions to consider. Many of these questions can uncover looming concerns impacting your tax bill. Will you need to change your investment disbursement approach due to the increase of the standard deduction? Do your investments need to be restructured to offset the loss of miscellaneous deductions? Will the state/local tax deduction cap negatively impact you? These are all important questions that can't be neglected when looking at your taxes this year.

---

3. IDENTIFY OPPORTUNITIES WITH TAXES IN RETIREMENT

"It is clear the future holds great opportunities. It also holds pitfalls. The trick will be to avoid the pitfalls, seize the opportunities, and get back home by six o'clock."

Because everyone's situation is different, these changes are going to affect you in a unique way. Does your current advisor talk with you about tax implications each year? If not, you may want to think about it this way: let's say you are a diabetic. You go to your primary care physician who monitors your blood levels and medications, you are in a good spot, right? You are in an adequate spot. What if you could go to a doctor who did the above, but also set you up with a dietician, a personal exercise regime, and a support group to help keep you accountable to bettering your condition? Going the extra mile would surely help your health. The same is true for your financial health when you work with someone specifically designed to work with retirees in a fiduciary capacity.

A fiduciary doesn't simply recommend what is suitable: he recommends what is best. For advisors who are working as fiduciaries, identifying tax concerns for their clients is second nature. After all, it is their responsibility to be looking out for their clients' best interest at all times. Once you've asked if your advisor works in a fiduciary capacity, there are some other key questions to consider. Many of these questions can uncover looming concerns impacting your tax bill. Will you need to change your investment disbursement approach due to the increase of the standard deduction? Do your investments need to be restructured to offset the loss of miscellaneous deductions? Will the state/local tax deduction cap negatively impact you? These are all important questions that can't be neglected when looking at your taxes this year.

4. ANALYZE AND PLAN FOR TAXES IN RETIREMENT

"My wife and I have started aggressively planning for our retirement, and by that I mean we're playing the lottery 3-5 times per week."

At this point, you may have done some better planning than playing the lottery! I am sure you had a plan in place when you first retired. However, life brings about changes which cause us to adjust. Carefully evaluating concerns and opportunities that arise and devising a plan to deal with them is an important part of the process. Many advisor/client relationships do not go further than investment selection. The benefits or consequences to the bigger picture are not considered. Make sure your advisor is looking at every piece of the puzzle when developing and reviewing your plan. Ask questions about your concerns and opportunities being addressed. It is also important to work with an independent advisor.

What does this mean? Well, it is similar to working with an independent insurance agency for your car insurance. You could go to a "captive" agency which can only offer you coverage from one company. Or, you could go to an independent agency which has access to a number of different companies with the same coverage for much more competitive premiums. An independent financial advisor has a wider variety of investment tools and options to customize a plan specifically to you. They are not limited to what they can offer, whereas captive advisors have a limited menu.

5. TAKE ACTION WITH TAXES IN RETIREMENT

"Even if you're on the right path, you'll get run over if you just sit there."

Deciding or planning to do something is not the same as taking action and doing it. If a lot of the above topics seem foreign to past meetings with your advisor, it may be time to demand more. If you are not confident in your tax situation or financial plan in general, there are some critical conversations to be had. The average American will spend more than 80,000 hours in their lifetime working and earning an income. With that in mind, you can see how taking one hour to discuss your life after work is a worthy investment. If you have any questions or would like to set up a time to get together over a cup of coffee, go to our calendar link to schedule an initial 15-minute call.

CLICK HERE **TO SCHEDULE A CALL**