

A Guide to Tax Planning in Turbulent Times

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Contents

Part 1

The Tools of the Tax Planning Trade

Part 2

Tax-Wise Investing

Part 3

Tax-Wise Financial Planning

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Whether you're saving, investing, spending, giving, or receiving wealth, there's scarcely a move you can make without considering how taxes might influence the outcome.

The particulars may evolve, but it seems there are always an array of tax breaks to encourage us to save toward our major life goals.

It's up to us to make the best use of these "tools of the trade."

In this guide, we'll cover what those tools are, as well as how to integrate them into your investing and financial planning.



Part 1
The Tools of the Tax-Planning Trade

Saving for Retirement

The good and bad news about saving for retirement is how many tax-favored savings accounts exist for this purpose. There are a number of ***employer-sponsored plans,*** like the 401(k), 403(b), and SIMPLE IRA. There also are ***individual IRAs*** you establish outside of work. For both, there are traditional and Roth structures available.

In any of these types of retirement accounts, your dollars have the opportunity to grow tax-free ***while they remain in the account.*** This helps your retirement assets accumulate more quickly than if they were subject to the ongoing taxes that taxable accounts incur along the way (such as realized capital gains, dividends, or interest paid).

Tax treatments for different types of retirement accounts can differ dramatically from there.

For some, you can make pre-tax contributions, but withdrawals are taxed at ordinary income rates in the year you take them.

For others, you contribute after-tax dollars, but withdrawals are tax-free—again, with some caveats. Each account type has varying rules about when, how, and how much money you can contribute and withdraw without incurring burdensome penalties or unexpected taxes owed.

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Saving for Education

529 plans are among the most familiar tools for catching a tax break on educational costs. You fund your 529 plan(s) with after-tax dollars; those dollars can then grow tax-free, and the beneficiary (usually, your kids or grandkids) can spend them tax-free on qualified educational expenses.

Saving for Giving

The ***Donor-Advised Fund (DAF)*** is among the simplest, but still relatively effective tools for pursuing tax breaks for your charitable giving. Instead of giving smaller amounts annually, you can establish a DAF, and fund it with a larger, lump-sum contribution in one year. You then recommend DAF distributions to your charities of choice over future years. Combined with other deductibles, you might be able to take a size-able tax write-off the year you contribute to your DAF.

Saving for Heirs

Last, but not least, a bounty of trusts, insurance policies, and other estate planning structures help families leverage existing tax breaks to tax-efficiently transfer their wealth to future generations.

With ongoing negotiations over the tax treatment on inherited assets, families may well need to revisit their estate planning in the years ahead.

Come what may, there's always an array of best practices we can aim at reducing your lifetime tax bills by leveraging available investment tools to maximum effect. We'll cover those next.



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Part 2
Tax-Wise Investing

At TVAMP, we view effective tax planning as a way to ***reduce your lifetime tax bill*** (or beyond, if you're preparing for a tax-efficient wealth transfer to your heirs).

One of the most powerful ways to ward off excess taxes is to be tax-wise about your investing. And yet, few investors take full advantage of the opportunities available at every level.

These levels include how you ***manage*** your investment accounts, ***select*** individual holdings, and ***buy and sell*** these holdings along the way.

> It's one thing to have the tools... It's another to make the best use of them.



Scott Fisher, CFP®

Senior Partner | Wealth Advisor

As you manage your investment accounts...

Are you doing all you can to build, manage and spend down your taxable and tax-sheltered accounts for maximum lifetime tax efficiency?

Building: Are you maxing out your contributions to appropriate tax-sheltered accounts? The more money you hold in various tax-sheltered structures, the more flexibility you'll have to delete or at least defer taxes otherwise inherent in building wealth.

Managing: Are you being deliberate about your asset location, dividing your various assets among your taxable vs. tax-sheltered accounts for overall tax efficiency? Ideally, you use your tax-sheltered accounts to hold your least tax-efficient holdings, while locating your most tax-efficient holdings in your taxable accounts.

Spending: When the time comes to spend your wealth, have you planned for how to tap your taxable, tax-deferred, and tax-free accounts?

Spending continued...

There is no universal answer to this critical query. Cash-flow planning calls for a deep familiarity with the particular accounts and assets you have got, the particular rules involved in deploying each, and your particular spending goals, all while keeping a close eye on any changes that may alter your plans.

As you select individual holdings...

Are you being deliberate about selecting tax-efficient vehicles? Even when different funds share identical investment objectives, some may be considerably better than others at managing their underlying holdings. Seek out fund managers with solid tax-management practices including:

Patient Investing: Many fund managers try to "beat" the market by actively picking individual stocks or timing their market exposures.

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Patient Investing continued....

We suggest using managers who instead patiently participate in their target market's long-term expected growth. This not only makes overall sense, it's typically more tax-efficient as it involves less, potentially taxable action.

Tax-Managed Investing: For your taxable accounts, some fund managers offer funds that are deliberately tilted toward tax-friendly trading techniques such as avoiding short-term (more costly) capital gains, and more aggressively realizing capital losses to offset gains.

As you buy and sell holdings...

Like the fund managers you choose, are you also being patient and deliberate about your trading? Do you avoid excessive trading and short-term capital gains (currently taxed at higher rates)? Are you guided by a personalized investment plan?

> **Exceptional outcomes require patience and persistence.**



Jeff Foster, CFP®

Senior Partner
Wealth Advisor

Bottom line, the fewer trades required to stick to your investment plan, the better off you're likely to be when taxes come due.

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Harvesting Capital Gains and Losses:

Having an investment plan also facilitates your or your advisor's ability to identify and make the best use of tax-loss and tax-gain harvesting opportunities when appropriate.

Tax-loss harvesting typically involves:

1) Selling all or part of a position in your portfolio when it is worth less than you paid for it.

2) Reinvesting the proceeds in a similar (not "substantially identical") position.

3) Optionally returning the proceeds to the original position after at least 31 days have passed (to avoid the IRS "wash-sale rule").

You can then use any realized capital losses to offset current or future capital gains, without significantly altering your portfolio mix.

It's worth noting, tax-loss harvesting typically lowers a harvested holding's cost basis. So contrary to popular belief, you're usually postponing rather than eliminating taxable gains. Why bother? More time gives you more control over when, how, or even if you'll realize the gains. For example, you could wait until tax rates are more favorable, or reduce embedded gains over time through gifting, charitable giving, or estate planning tactics.

Tax-gain harvesting involves selling appreciated holdings to deliberately generate taxable income. Why would you do that? Remember, your goal is to minimize lifetime taxes paid. So, especially once you're tapping your portfolio in retirement, you may intentionally generate taxable income in years when your tax rates are more favorable. Basically, you're sacrificing a tax return battle or two, hoping to win the tax-planning "war."

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Part 3
Tax-Wise Financial Planning

Weaving Tax Planning Into the Fabric of Your Life

Managing for tax-efficient investing is just one way we help families reduce their lifetime taxes. TVAMP Financial Advisors also help integrate all of the above into your broad financial interests.

Starting on the next page are just a few life events that can pose potential tax-planning challenges and opportunities.



Life Event	Tax-Planning Possibilities
You get a job.	Enroll in and max out contributions to any tax-sheltered accounts such as a 401(k) or Health Savings Account (HSA).
You buy a home and start a family.	Score extra tax deductions; use the savings to pay down college debt, contribute to an IRA, and/or establish a 529 plan account for your child.
You receive an executive compensation package.	Work with a financial planner or tax professional to determine how and when to exercise your options for maximum tax-efficiency.
You receive a financial windfall, such as an inheritance.	Allocate a significant portion of any new wealth to tax-sheltered retirement accounts. (Ditto for those executive compensation benefits.) Seek to offset taxable gains with any available losses.

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You sell your first home and buy a bigger one.	Keep an eye on any gains from the sale. With some caveats, the Taxpayer Relief Act of 1997 says you can exclude up to $500,000 of the gain as a joint filer ($250,000 for single filers).
You transition to a new, lower-paying career, take a leave of absence from work, or incur a financial setback.	If your annual income is taking a temporary hit, consider leveraging the lower tax bracket to reduce your lifetime taxes by harvesting capital gains or performing a Roth conversion.
You buy a business.	Engage a tax-wise professional financial planner to facilitate the acquisition.
You send your 18-year-old to college.	Time to tap their tax-sheltered 529 plan. Adjusting your income levels through practical tax planning may also help secure a more favorable student aid package.
Your 18-year-old decides against college after all.	Consider redirecting their 529 savings to a different beneficiary or withdrawing the assets and paying tax + 10% penalty (which may not be so bad if the assets grew tax-free for years).

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You sell a business.

Ideally, your succession plan has been in place for years prior to position your business for a tax-efficient transfer. Targeted insurance may also help cover taxes without placing an undue burden on you, your partners, or your successors.

You retire.

Plan how and when to take Social Security and any pension benefits available, as well as how and when to tap your taxable and tax-sheltered accounts. Once again, during low-income years, you may also plan to engage in some tax-gain harvesting, to reduce your overall tax basis.

You downsize to a smaller home.

Again, mind your capital gains, as described above. If you've lived in the home for at least 2 years, you should again be able to exclude gains of up to $250,000/$500,000 per single/joint filer.

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You decide to work part-time in retirement.

Good for you! But do some tax projections to determine how the extra income may impact your tax rates, benefits, and bottom line.

You are charitably inclined.

Even with the 2017 Tax Cuts and Jobs Act tax code changes, tax breaks remain for the philanthropically minded. For example, you can use well-timed giving to offset unusual taxable events, such as setting up a Donor-Advised Fund in the same year you exercise a taxable stock option, sell a highly appreciated asset, or incur other significant deductible expenses.

You incur significant healthcare costs.

Speaking of deductible expenses, you may be able to bundle high-priced elective procedures into a single year, to take more than your standard deduction that year (especially if you pair it with bundled charitable giving). Or, if you're not seeking a higher deduction, this may be a good time to tap tax-free assets in your HSA.

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You prepare to pass your wealth on to heirs or other beneficiaries.

The taxable implications of estate planning are extensive, and best addressed with a financial planner and estate planning attorney. Especially since the 2020 SECURE Act eliminated the stretch IRA, you may also want to assess whether you'd rather prioritize reducing your own lifetime taxes or those of your heirs, and proceed accordingly.

Each financial move you make can be leveraged for tax efficiencies. Better still, a seasoned tax-planning professional can combine these parts into an integrated whole as you pursue lifelong tax efficiency.

Put another way, ideal tax planning integrates seamlessly with all your larger financial plans.

This can get complicated—like a juggling act, in which we must keep an eye on each item as well as the big-picture results.

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Could you use an experienced hand to keep your total wealth at play?

TVAMP can help.
Get started with a 15-minute introductory call.
Schedule yours today:

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