OLD NORTH STATE TRUST, LLC

Professional Expertise Helps In Navigating Tax Decisions

April and tax filing season remind us, once again, of the complexity of our tax code, and how difficult it is to be sure we're making the best decisions about our finances. Because tax issues are so important, our company has made a priority of helping our clients to navigate the tax system.

In many cases, we have been able to assist clients in both achieving their long-term objectives and saving them money, both now and later, by taking advantage of specific provisions in the law.

Among the simplest examples is managing withholding. Too many taxpayers let the government keep more of their money than they should. While it feels good to get a nice refund in the spring, it's far better for taxpayers to have been using, or investing, their own money themselves. Excessive withholding can mean an individual is giving the government an interest-free loan for as long as a year or more. Setting the optimum withholding level (to keep as much money as possible, while complying with the law and not owing a big tax bill on April 15) is important to every taxpayer. Expert advice can make it much easier to make this decision intelligently.

Contributions to tax deferred accounts are another area that can be daunting. In simple terms, we offer guidance to clients who are deciding how much money to put in a retirement account, such as an IRA, each year. A key consideration is whether the taxpayer will be in a lower tax bracket when withdrawing those funds, thus paying less income tax on the money than if it was subject to tax when invested. For some people, however, it can make better sense to put after- tax dollars in a Roth IRA. An example would be someone who is "harvesting" a capital loss, which would offset a current tax liability. That can mean the owner pays little or no tax now on the money that's invested, and owes no tax when it's withdrawn.

These are complex calculations. That is precisely why our tax specialists work hard to master the nuances, so our clients don't have to do so.

Many of our clients, having done well by themselves, want to do good with what they have earned. Making charitable gifts to worthwhile causes, or passing wealth to children or grandchildren, can involve pitfalls because of tax-law complexities. One important example: certain direct contributions, such as to a medical provider or school, can fall outside of the annual $14,000 exclusion from the federal gift tax. That same exclusion can shield gifts to relatives from the gift tax, too. A knowledgeable advisor can help a taxpayer make the best choices about what to deduct as a charitable contribution, and what qualifies for the $14,000 annual exclusion and what counts as medical or education contributions.

Some individuals take full advantage of this provision to begin transferring their estates to the next generations while they are living, so as to minimize the impact of estate taxes later on.

Another important decision about gifts is whether to make them outright, or through a trust. Determining the best option has consequences not just for the donor, but for the donor's heirs.

When trusts are set up, it's important to decide how income is to be handled. Is it better for all parties to distribute the income to the beneficiaries, or to retain it and reinvest it? These questions have no simple answers, because they depend on each family's unique situation, and the client's objectives.

Some clients have more immediate concerns, of course, such as providing for a child's or grandchild's education. A direct gift of tuition, paid to the school, qualifies for its own unlimited exemption, which is in addition to the $14,000 gift exclusion. That is the best choice for some clients, but for others, a tax-sheltered "529" education savings plan makes better sense. We help our clients sort out the pros and cons of such decisions.

As referred to earlier in the article, there are strategies for managing losses. Most people with investments have seen a stock or mutual fund or other asset decline in value. Fortunately, the tax code provides opportunities to use those setbacks constructively. If an asset is sold at a loss, that can be used to balance gains on other assets, and reduce if not completely eliminate capital gains taxes. That so-called harvesting of losses does require careful planning, both to maximize the financial benefit and to stay within the law.

Along with advising our clients about the best strategies, we also help with the necessary paperwork. That includes gathering the information and documentation needed to prepare tax returns. In some cases, we work with our clients' other advisors, including financial planners, brokers and accountants, in managing their tax strategies.

The purpose in this article isn't to give advice on what decisions to make, but rather to point out some of the more important choices taxpayers need to make at various points in their lives. The client's values and objectives are the most important factors in how those decisions get made. Our job is to provide the necessary expertise and advice so all decisions are based on the best information available.