TAX SAVINGS STRATEGIES

Recent tax law changes have many investors wondering if it's still possible to avoid capital gains taxes. The good news is that most strategies to beat capital gains still work, but may require a few modifications. Following are several actions you can take that may help avoid long-term capital gains taxes.

Harvest losses – It is still possible to offset long-term capital gains by harvesting losses within your portfolio. For losses that are greater than your gains, it's possible to deduct up to $3,000 per year against your ordinary income and carry over any excess to future years.

Make charitable donations – Even if you are no longer itemizing your deductions, it's still possible to make a charitable donation of appreciated stock to avoid capital gains tax. One option is through funding a donor-advised fund. This type of fund provides an income tax deduction for the fair market value of any stock donated, with the added bonus of no capital gains tax. Your advisor can provide additional information on this type of fund.

Consider a 1031 exchange – A 1031 exchange allows property owners to roll capital gains from the sale of a property into the purchase of a new property, which then takes on the first property's lower cost basis. The benefit to this arrangement is it allows you to keep money working on your behalf that otherwise would have been paid out in taxes.

Buy and hold – If you leave appreciated stock to your heirs at the time of your death, they will receive an automatic step-up in basis to the current market value at the date of your death; therefore, you avoid capital gains tax.

Utilize Roth contributions – Because contributions to a Roth IRA or 401(k) are made with after-tax money, they are not taxed at distribution.

Make gifts to family members – An annual gift exclusion still exists – up to $15,000 per individual each year. Highly appreciated stock that is given to a child or parent continues at its lower cost basis until it is sold. If that child or parent is in a lower tax bracket at the time of the sale, the capital gains rate is 0 percent. However, when making a gift to a child under age 24, be aware of updates to the "kiddie tax."

Consider opportunity zones – Opportunity zone funds invest in economically distressed communities and may be eligible for preferential tax treatment. This preferential treatment may include a temporary deferral of accumulated capital gains, a potential 15 percent cost basis step-up on capital gains invested, and a 0 percent capital gains rate on new gains for investments held 10 years.

Manage your tax bracket – Work with your advisor to sell stock during years in which your income is lower, and keep an eye on paying 0 percent in capital gains whenever possible.

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Invest in your home – Under the new tax laws, individuals can exclude up to $250,000 of capital gains in their primary residence ($500,000 for married couples filing jointly). Be sure to keep any receipts for home improvement projects that may add to your home's cost basis.

Save for college using a 529 – Contributions to 529 savings plans grow tax-free and, when used for education expenses, withdrawals are also tax-free.

Remember your HSA – A health savings account allows you to contribute using pretax dollars, and that money grows and is distributed tax-free. Another bonus of HSA accounts is that they allow investors to save for future healthcare expenses in retirement.

Time your move – Several states do not have income tax, including Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. If you plan on moving to one of these states, wait until you've established residency before triggering a sale that would be taxed at capital gains rates.

For more information about how to incorporate capital gains saving strategies, contact your wealth advisor.

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