Mariner
WEALTH ADVISORS

Are You Planning for Taxes Year-Round?

We recommend discussing proactive tax planning with your wealth advisor and tax professional throughout the year to help ensure you're investing and taking any withdrawals from retirement accounts in the most tax-efficient way possible. Here are strategies to consider ahead of filing your taxes.

Benefits of Tax Deductions

To better understand the tax-mitigation strategies available, it's helpful to understand "above-the-line" and "below-the-line" tax deductions. Above-the-line deductions, also known as "adjustments to income," are subtracted from your total income. They help lower your adjusted gross income (AGI) and thus your taxable income. Above-the-line deductions take their name from the fact that they appear above the line on tax forms where AGI is calculated. Below-the-line deductions, also known as itemized deductions, are subtracted from your AGI to arrive at your taxable income.

While above-the-line deductions are available to all taxpayers, below-the-line deductions can only be taken if you choose to itemize your deductions and the total amount of those deductions exceeds the standard deduction. For 2023, the standard deduction is $13,850 for single filers and $27,700 for married couples filing jointly.[1] Standard deduction amounts are slightly higher for those over age 65.

Health Savings Accounts (HSAs)

Contributions to an HSA are a good example of an above-the-line deduction. HSAs, which must be paired with high-deductible health insurance policies, are triple tax free: Contributions reduce your taxable income in the year in which you make them, while interest, dividends and capital gains are free from tax, as are withdrawals used to pay for qualified medical expenses. HSAs are especially valuable if you can avoid drawing on the assets, which allows them to compound over many years. For 2023, the HSA contribution limits are $3,850 for self-only coverage, and if you have family coverage you can contribute up to $7,750.[2] Individuals who are age 55 and older can contribute an additional $1,000 as a catch-up. In addition, after age 65, you can use HSA funds for anything you like, not just eligible medical expenses.

Traditional IRA

If you have earned income, contributions to traditional IRAs are another above-the-line deduction. For 2023, the maximum total contribution allowed is $6,500, or $7,500 if you're age 50 or older.[3] Note that the ability to deduct your contributions may be limited based on your income and whether you or your spouse are covered by a retirement plan at work. Single taxpayers covered by a workplace plan and earning above $83,000 can't deduct contributions. For married couples where both spouses are covered by a workplace plan, deductions disappear above $136,000. With just one spouse covered by a workplace plan, the deduction phases out at $228,000.[4]

401(k) or Other Qualified Retirement Plan

Contributions to qualified retirement plans, such as 401(k)s, 403(b)s and 457s, are another form of above-the-line deduction, as contributions to these plans reduce your taxable wages. Individuals can contribute $22,500 in 2023.[5] For those over age 50, catch-up contributions allow you to contribute up to $30,000. Contribute as much as you can even beyond the employer match to help maximize your pre-tax and retirement savings.

Charitable Contribution Strategies

While cash contributions are the most common method of charitable giving, you should consider other strategic options that may provide more powerful tax savings. One strategy is to donate appreciated assets, such as securities, artwork or real estate, to qualified charities. The donor receives a charitable deduction for the full, fair market value of the gifted assets. If those assets were held for more than a year, they are not subject to capital gains taxes.

Establishing a donor-advised fund (DAF) is another option. By transferring assets to the fund, donors receive an immediate tax deduction in the year donated and can recommend grants from the fund to qualified charities over time. Another strategy would be to “bunch” your charitable contributions in high-income years. This can be accomplished with direct contributions to charities or by using a DAF.

Qualified Charitable Distributions (QCDs)

QCDs can potentially save thousands in taxes every year. If you’re age 70½ or older, you may make tax-free transfers of up to $100,000 per year directly from your IRA to a single or multiple qualified charities. The amount will be excluded from your taxable income.[6] Additionally, the distribution counts toward your required minimum distribution.

Mortgage-Interest Deductions

Mortgage-interest deductions are another tax-minimization tool. Married couples can deduct the interest on mortgages up to $750,000.[7] One way to amplify the mortgage-interest deduction is by making an extra payment on your mortgage before the end of the year, if allowed by your mortgage lender.

Investment Interest Expenses

You might also benefit from writing off investment-interest expenses. These include fees paid to borrow money to invest in securities or margin interest paid on a brokerage account. Note that these expenses can’t exceed the amount of investment income earned.

Deferring or Accelerating Income

Managing when you receive your income may help you lower your taxable income, either immediately or over multiple years. For example, high earners who expect their income to decrease after this year may wish to defer compensation or bonuses until next year so that they don’t take a huge tax hit this year. On the other hand, they may want to consider accelerating income into the current tax year if they expect their income to increase significantly next year.

Consult With Your Wealth Team

There are many other tactics and strategies you can use to limit your pain when tax time rolls around again. What’s most important is to use the intervening months to proactively plan.

For more information visit: marinerwealthadvisors.com

[1]"Tax and Withholding and Estimated Tax"
[2]"Health Savings Accounts"
[3]"IRA Contribution Limits"
[4]"2023 IRA Deduction Limits"
[5]"401(k) and IRA Limit Increases for 2023"
[6]"QCDs Are Great Options for Making Tax-Free Gifts to Charity"
[7]"Home Mortgage Interest Deduction"

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Because the administration of an HSA is a taxpayer responsibility, you are strongly encouraged to consult your tax advisor before opening an HSA. You are also encouraged to review information available from the Internal Revenue Service (IRS) for taxpayers, which can be found on the IRS website at IRS.gov. If you receive distributions that are not for qualified medical expenses, the amount you withdraw will be subject to federal income tax and may be subject to an additional 20% tax.

Withdrawals for tax-deferred retirement plans are generally subject to ordinary income tax and may be subject to a 10% federal tax penalty if taken prior to age 59½.

Investing involves risk, including possible loss of principal.

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