Financial Counselors

Ethics, Education & Experience™

Current Year Tax Reduction Strategies Example

Tax Projection: You are projected to be in the 24% tax bracket over the next year.

401k Contributions: Due to your profession, we anticipate you being in a higher tax bracket in retirement than you are currently. Therefore, we recommend switching your pre-tax contributions to Roth contributions and increasing your contributions to the maximum allowed going forward.

Health Savings Account (HSA): Since you are in the high deductible health plan and it is HSA qualified, we recommend contributing the maximum to your HSA plan this year to take advantage of the tax deduction.

Limited Purpose Flexible Spending Account (LPFSA): To save more pre-tax dollars, contribute to your LPFSA to pay for dental, vision, and other eligible expenses (but not medical or prescriptions drugs). The 2018 maximum contribution amount is $2,650. This will allow you to save more of your HSA dollars for the future. Be sure to determine exact annual expenses since these funds are forfeitable if not used with the year. Finally, you cannot reimburse the same expense from both the LPFSA and HSA.

Dependent Care Flexible Spending Account (DCFSA): As you have children, consider pre-tax contributions to a DCFSA. The maximum allowed contribution for 2018 is $5,000/MFJ. You can use your DCFSA to pay for a wide variety of child care services. Be sure to determine exact annual expenses since these funds are forfeitable if not used with the year

IRA Contributions: Your income is projected to be too high to make tax-deductible IRA contributions or to make Roth IRA contributions. Regardless of income however, you can still make after-tax IRA contributions. After making these contributions, you can convert the after-tax IRA balance to a Roth IRA. The gains are taxed at your ordinary income rates when converting, but if the conversion happens 1 day later, the gain/taxes will be very minimal. **To the extent that cash flow allows, we recommend maximizing your after-tax IRA contributions & Roth IRA conversions.**

Employer stock:

a. ***Employee Stock Purchase Plan (ESPP):*** Given that you are able to purchase company stock at a 15% discount, it makes sense to take advantage of this opportunity and maximize the contributions per year. You essentially recognize a 15% return on your money immediately without considering any other growth. The risk to maximizing these ESPP purchases is over exposure to your company's stock. To minimize this risk, we recommend either selling the stock if it is at a loss or selling the stock as soon as the sale would be considered a "qualifying disposition" and then investing the proceeds in your selected allocation model. The requirement for this favorable tax treatment is to hold the stock for a year after the purchase date and 2 years after the beginning of the offering period. The stock you hold currently is at a loss, therefore we recommend selling it and using the proceeds to help pay off your credit cards, build your emergency fund, and repay your student loans.

b. ***Restricted Stock (RSU's):*** There is a taxable event when your RSUs vest (ordinary income on the difference between exercise price and the price on the date of vesting). Beyond the moment of vesting, your stock is treated just as any other stock. At sale, you pay capital gains tax on any gain beyond the price that the stock was when vested. To minimize your exposure to your company stock's, in the future we recommend selling the RSU's as soon as they vest and investing the proceeds into your selected investment model allocation. We recommend selling the RSU's you currently hold now and using the proceeds to help pay off your credit cards, build your emergency fund, and repay your student loans.

c. ***Stock Options:*** Stock options are taxed when they are exercised. Beyond the moment of exercise, your stock is treated just as any other stock. At sale, you pay capital gains tax on any gain beyond the price that the stock was when exercised. We recommend exercising your vested options each quarter and selling them as they are exercised to minimize the tax impact of sale, and single company exposure. We recommend exercising & selling your stock options you currently hold to help pay off your credit cards, build your emergency fund, and repay your student loans.