DorchesterAdvisors
Money worked harder

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**How your Investment Advisor can help you (and your CPA) with your taxes**

Recently I was helping a client finalize some critical investment-related data for their taxes so they could respond to an IRS query. During this process I was reminded how much of the work we do as investment advisors impacts a clients' taxes; especially the type of clients we deal with (People with substantial portfolios near or in retirement).

For such clients, their portfolios and investment income are a significant part of their tax-filing. The information from their portfolios is needed for all the major tax forms and schedules. For example, distributions from pensions and social security (Reported on Tax form 1040), Investments related deductions (schedule A), interest and dividends (schedule B), contributions to tax deferred retirement plans (Schedule C or form 8606); capital gains and losses (schedule D); alternative tax computations (schedule D); income from partnerships, hedge funds (schedule E), calculations of AMT tax, reporting of foreign taxes due to investments (Form 1116)….. etc.

Now, we are not qualified or licensed tax professionals and therefore we do not (and should not) give tax advice. But, we are knowledgeable about taxes as they relate to investment items and we usually have early insights into the investments related information that will be reported for tax purposes.

For example, we can come up with reasonable estimates of the portfolio's income (dividends, capital gains, realized gains). We can also help clients determine if they need to get the cost-basis for any "uncovered" securities so they avoid a last minute tax-time fire-drill. We can help them to evaluate if they can use up any loss carry forwards, manage the so called "investment-tax" (3.8% surcharge on investment income over a threshold account), or make timely contributions into their tax-deferred plans. And in some cases we can actually work with clients to take pre-emptive action to manage their tax bill. And for people in retirement we can help them plan effective ways to take required minimum distributions and social security benefits.

Year-end is a good time to do some tax planning to manage your tax bill because you have time to act and take advantage of 2015 opportunities. And it's a best-practice to review your financial matters regularly.

Here is a partial checklist of Investment related tax topics that are relevant to Individuals and families. I offer them with the disclaimer that they are not intended as professional advice and may not even apply to you. But you may want to scan these topics and evaluate if you need to take action on them before year-end.

1. Maximize contributions into your retirement accounts (401k, IRA's etc.), so that your portfolio grows tax-deferred and to get some "free money" in the process if your employer does a contribution match.
2. Re-balance 401k, IRA, Deferred Compensation portfolios along with your regular portfolio.
3. Evaluate dividends, realized & unrealized gains and the potential to offset them against portfolio losses or loss carry-forwards – "Tax-Loss Harvesting".
4. Evaluate your exposure to the 3.8% "investment" tax and look for opportunities to reduce it.
5. Harvest stock options and RSA's.
6. Contribute to your Healthcare Savings accounts (HSA), if you are entitled to have one.
7. Take Required Minimum Distributions (if this applies to your situation).
8. Convert traditional IRAs to a Roth IRA to take advantage of "tax-diversification".

9. Insure you have and keep the cost-basis for your non-covered holdings.
10. Plan your saving-waterfall: (First fund tax-advantaged accounts, then taxable accounts).
11. Make gifts and charitable donations to use (and not loose) your gifting allowance.

**Why It's Important**

Tax planning is an example of "Things You Control".

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we **do not** control. For example, we hope the markets will go higher and we will make money. Or we worry that markets will collapse and we may lose our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we **do** control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals.

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