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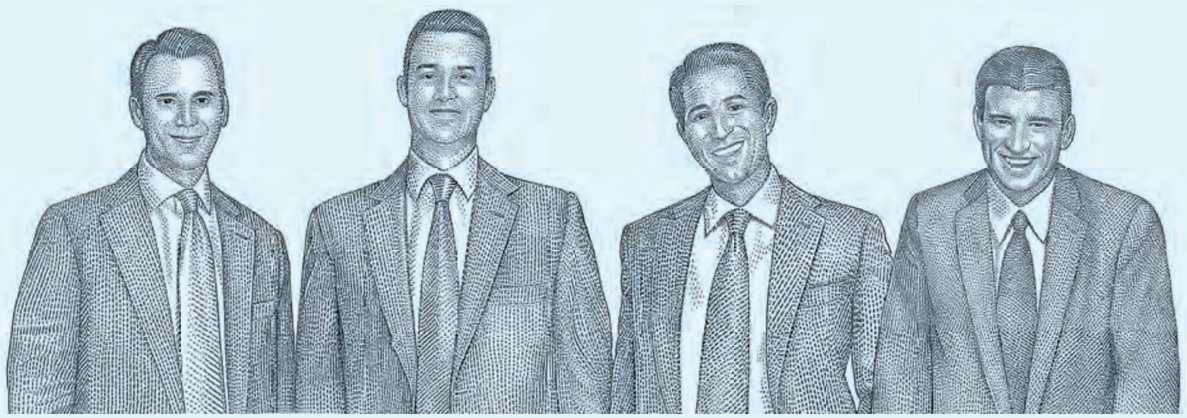
VOLUME 26 | EDITION 01

Are you winning the tax game?

BY STEPHEN A. SCHWARTZ, CFP®, AEP®



Left to right:
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PIONEER FINANCIAL AT NORTHWESTERN MUTUAL – PARK AVENUE

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FINANCIAL SERVICES EXPERIENCE
Kevin, 20 years
Stephen, 17 years
James, 17 years

ASSETS UNDER MANAGEMENT
$1+ billion

COMPENSATION METHOD
Asset-based fees and commissions (investment and insurance products)

PRIMARY CUSTODIAN FOR INVESTOR ASSETS
Accounts held at Northwestern Mutual Investment Services LLC, an introducing broker-dealer, member FINRA, SIPC. Accounts carried, and all transactions executed, cleared and settled through Pershing, A BNY Mellon Company. Member FINRA, NYSE and SIPC.

PROFESSIONAL SERVICES PROVIDED
Financial planning, investment-advisory, risk-management and money-management services

MINIMUM FEE FOR INITIAL MEETING
None required

MINIMUM NET WORTH REQUIREMENT
$1 million

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ILLUSTRATION BY KEVIN SPROULS

As advisors, we are often asked tax-centric questions by clients, starting with, *Can I deduct this?* and, *If I sell this security, how will I be taxed?*

Or, simply, *How much can I contribute into a tax-deferred vehicle such as a 401(k) or IRA?*

While these are all wonderful questions that many individuals should ask, the hallmark of sound financial planning is to understand the impact taxes have on *all* aspects of financial decision-making. We are continuously surprised by the many tax-advantageous strategies that affluent investors tend to overlook.

Let's examine a few of these strategies, which can help the affluent investor become more tax efficient:

The first involves the tax deductibility of investment-management fees. Investment-management fees can be tax deductible depending upon the sum of your miscellaneous deductions and your adjusted gross income. Once all of these deductions are tallied, an investor may receive a tax deduction for the portion of those management fees that exceeds 2 percent of adjusted gross income.

Another controlling factor for most investors is the location of certain securities, between tax-deferred and taxable investment accounts. Several asset classes, which many mainstream investors own, can be tax inefficient. Specifically, high-yield bonds, mutual funds with a high turnover rate and real estate investment trusts tend to have this negative tax stigma associated with them.

With these potential tax drags, investors may want to consider a re-ownership of these asset classes by simply placing such tax-inefficient securities into their tax-deferred accounts.

> "The hallmark of sound financial planning is to understand the impact taxes have on *all* aspects of financial decision-making."

Another relatively new and powerful wealth-building strategy involves the use of a 401(k). Making pretax contributions into your 401(k) plan has been a consistent strategy for several decades. In 2017, however, these plans will allow participants to make contributions up to $18,000 per year, and a catch-up contribution up to $6,000 if you are age 50 or older. Federal tax rules allow plan participants to make additional contributions of after-tax money up to the Internal Revenue Service's total annual contribution limit. Each 401(k) plan may choose whether it will accept after-tax contributions.

For those under the age of 50, the maximum contribution is $54,000. Making such a contribution does not reduce your taxable income, but taxes are deferred on any earnings until distribution. A recent IRS ruling has made it easier to convert those after-tax contributions directly into a Roth IRA, where the money can grow and potentially be withdrawn tax-free.

For those charitably inclined, a donor advised fund (DAF) is a particularly helpful tool. A DAF is a charitable-giving vehicle sponsored by a public charity that allows donors to make a contribution to a charity and be eligible for an immediate tax deduction.

Essentially, you're making a tax-deductible donation to the organization sponsoring the fund, and you're able to suggest how this money will be granted to your favorite charities. A donor can also opt to donate either cash or appreciated assets such as stocks, bonds or real estate. By donating such appreciated assets, you can generally avoid paying capital gains taxes while taking an income tax deduction subject to certain IRS limitations.

These tools and strategies are several tax-efficient methods, which, if employed successfully by an investor, can help enhance his or her overall returns. To effectively evaluate the merits of these plans, consult a wealth or tax advisor and consider the sum of all the parts before taking action on any particular strategy. ●

ABOUT US

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