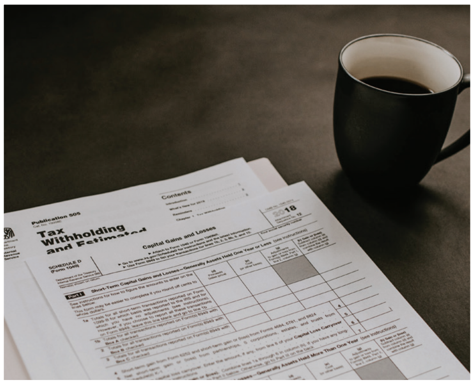
# Minimize Your Tax Liability

In 10 Simple Steps

# What is Tax Liability?




Simply put, tax liability is the amount of money you owe in taxes to the government (typically federal income taxes). However, it is possible to have no tax liability. For example, if your total tax was zero, if you have low enough income or you didn't have to file an income tax return, you could have zero tax liability. Why? Your standard deduction would exceed any taxable income, thus leaving no money owed to the IRS. This does not mean that you are not paying taxes. Typically, you pay payroll taxes through your employer, even if you do not have to pay additional federal income taxes after completing your tax return. Depending on where you reside, there are also state & local taxes, sales taxes & more that could be relevant, even with a low income. If you do not fall into any of these categories, you may be able to reduce your tax bill with a few easy steps/strategies. Keep reading to learn more...

# Strategies

TO MINIMIZE YOUR TAX LIABILITY

### Contribute to a Retirement Account

By investing a portion of gross income into a 401k or traditional IRA, this money will not be taxed until the funds are withdrawn (depending on your bracket). For example, in 2021 employees can contribute up to $19,500 of wages into a 401k. Because of this, a worker in the 24% bracket could save up to $4,680 in taxes & someone in the 37% bracket could reduce their income tax bill by $7,215.

### Invest in Employer Benefit Plans

You can receive a deduction on health/dental expenses if your employer offers a Flexible Spending Account (FSA). This allows redirecting a part of your salary to pay these types of expenses. Health Savings Accounts (HSA's) are another similar arrangement.

### Group Itemized Deductions

Some itemized deductions, like medical expenses, are only deductible once they exceed a certain amount. Delaying payments beyond the end of one year or prepaying expenses expected in the next year may be advantageous. This may allow you to group expenses in one single year, while promoting a better chance of deductions being deductible.

# Strategies

TO MINIMIZE YOUR TAX LIABILITY

### Work with a Trusted Financial Advisor

Working with a financial advisor can help you optimize deductions, tax returns for future investing & reach future retirement goals. See page 6 for additional information...

### Donate to Charity

If you itemize deductions on your tax return, rather than taking a standard deduction, making donations to qualified charities can reduce taxes. Donations can be made in cash or tangible goods. Keep in mind that any donation, with a value exceeding $250, requires a receipt to be considered valid.

### Use Tax Credits When Available

Tax credits subtract from any tax debt you owe the IRS, after completing the tax return & adjusting income/tax deductions. By keeping up to date on all tax credits available, you will be able to better understand what you do & do not qualify for. Then, you may be able to save more money during tax season.

# Strategies

## TO MINIMIZE YOUR TAX LIABILITY

### Consider Tax-Exempt Bonds

Interest on state/local municipal bonds are typically exempt from federal income tax & tax by the issuing state/locality. Interest paid on these bonds is less than that of comparable commercial bonds. Those in higher brackets receive interest from municipal bonds greater than higher paying commercial bonds, after tax reductions. Profit made from sale of municipal bonds is taxable & loss is deductible.

### Understand What Is Tax Deductible

If you are self-employed/own a small business, you can generally deduct job-related/out of pocket expenses, common to the type of work being done. These can reduce taxable income through offsets for expenses/depreciation. Deductible job-related expenses must be ordinary & necessary. When combined with other deductions, these tax strategies go a long way in reducing tax liability. In addition, it is recommended that you further research deduction options, as they are available for jury duty, travel, home offices & so much more.

# Strategies

TO MINIMIZE YOUR TAX LIABILITY

### Put the Right Assets in the Right Accounts

Asset location strategies are often used to manage tax liability. The goal? Place assets that generate high-income (i.e. real estate investment trusts — REITs or taxable bonds) into accounts with tax advantages. It is also recommended that assets that generate smaller tax bills (municipal bonds & ETFs) are put into taxable accounts.

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### Know When to Buy & Hold

The strategy of buying & holding is great for passive investments, where stockholders buy & hold stocks for long periods of time. Here, the taxation rate for investments such as this, tend to be lower than short-term investments.

# Final Takeaway

No matter your income, profession, background, etc., it is important that you educate yourself on tax liability & how to go about minimizing it each year. Doing this early on will help you to avoid unwanted surprises at the end of tax season. We encourage you to begin having these conversations with your family & research additional options as needed so that you will be ready for tax year 2021. By taking these steps now, you will be far more prepared than ever before, when it comes to submitting taxes at the end of the tax year.

On the next page you will find a checklist to help you start minimizing tax liability as soon as today!

# Checklist

FOR MINIMIZING TAX LIABILITY

- [ ] Invest in employer benefit plans
- [ ] Contribute to retirement account(s)
- [ ] Group itemized deductions
- [ ] Donate to charity
- [ ] Work with a trusted financial advisor
- [ ] Research what tax credits are available to you
- [ ] Consider investing in tax exempt bonds
- [ ] Look into what is tax deductible
- [ ] Put the right assets in the right accounts
- [ ] Learn when to buy & when to hold