

## Are You Overpaying 'Uncle Sam'?

### Five Key Considerations for Improving Tax-Efficiency

by Nick Santangelo CFP®, Consulting Analyst

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Taxes play a significant role in everyone's financial life, and maximizing tax efficiency can have a substantial impact on overall wealth accumulation and preservation. By understanding and strategically planning for tax implications, you can potentially reduce your tax burden and keep more of your hard-earned money. Below we explore five key considerations for achieving tax-efficiency, helping you make informed decisions which optimize your tax situation to avoid “overpaying” the government.

#### 1. Understand Your Tax Bracket and Marginal Tax Rate

To make effective tax planning decisions, it is crucial to understand your tax bracket and marginal tax rate. Familiarize yourself with the various tax brackets and corresponding rates to determine the proportion of your income which falls within each bracket. This knowledge will enable you to evaluate the tax impact of additional income, deductions or investment gains. By strategically timing income or deductions, you may be able to reduce your taxable income and lower your overall tax liability.

#### 2. Utilize Tax-Advantaged Accounts

Tax-advantaged accounts, such as Individual Retirement Accounts (IRAs), 401(k) plans and Health Savings Accounts (HSAs), offer excellent opportunities for tax savings. Contributing to these accounts can provide immediate tax benefits, such as deductions or tax-deferred growth. Consider maximizing contributions to these accounts, taking advantage of any employer matching contributions and exploring catch-up contributions if you are nearing retirement age. Also, explore the benefits of Roth accounts (IRA and 401(k) plans if your employer offers this), which offer tax-free withdrawals in retirement. By strategically utilizing tax-advantaged accounts, you can minimize your tax liability and further boost your retirement nest egg.

#### 3. Optimize Investment Strategies

Investments can generate taxable income through dividends, interest, or capital gains. By employing tax-efficient investment strategies, you can potentially reduce your tax liability. Many investors overlook the importance of “asset location” when building a portfolio; allocating tax-efficient investments within a

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taxable account while holding tax-inefficient investments within tax-deferred accounts can materially improve a portfolio's after-tax return. Additionally, focus on holding investments for the long-term (over one year) to benefit from lower capital gains tax rates. Implement tax-loss harvesting to offset capital gains with capital losses.

#### **4. Maximize Deductions and Credits**

Take advantage of available deductions and credits to lower your taxable income. Itemized deductions, such as mortgage interest, property taxes and charitable contributions, can reduce your taxable income if the total exceeds the standard deduction. For charitably inclined individuals, a charitable bunching strategy (given several years' worth of charitable gifts in a single tax year) can be effective to maximize itemized deductions in a year while opting for the standard deduction in subsequent years. Evaluate your eligibility for tax credits, such as the Child Tax Credit, the Earned Income Tax Credit or education-related credits. Lastly, consider the potential tax benefits of certain expenses, such as medical and dental expenses that exceed a certain AGI threshold.

#### **5. Seek Professional Guidance**

Navigating the complexities of the tax code can be challenging. Engaging the services of a qualified tax professional or certified financial planner can provide invaluable expertise and guidance. These professionals can help you understand the intricacies of tax planning and identify opportunities specific to your situation, while ensuring compliance with tax laws. They can also assist in preparing and reviewing your tax returns, helping you optimize deductions, credits, and strategies for tax efficiency. By working with a tax professional, you can gain peace of mind knowing that you are minimizing your tax burden while staying in line with ever-changing tax regulations.

Achieving tax-efficiency requires a proactive approach to tax planning. By considering your tax bracket, utilizing tax-advantaged accounts, optimizing investment strategies, maximizing deductions and credits and seeking professional guidance, you can effectively minimize your tax liability and keep more of your money working for you. Remember that tax laws are subject to change each year, some more so than others. As such, it is important to stay informed and adapt your strategies accordingly. By taking control of your tax situation, you can build wealth more efficiently and secure a stronger financial future.

For more information, please contact any of the professionals at Fiducient Advisors.

## About the Author



**Nick Santangelo, CFP®**  
*Consulting Analyst,  
The Wealth Office®*

Nick is responsible for the analysis of client investment portfolios for The Wealth Office®. He assists in the servicing of clients by offering expertise on asset allocation, portfolio design, investment policy statements, manager selection and financial planning. Prior to joining the firm in 2020, Nick served as a Client Service Associate at The Next Level Planning Group. Nick graduated from the University of Missouri earning a Bachelor of Science in Personal Financial Planning with a minor in Business Administration. He obtained the designation of Certified Financial Planner (CFP®) from the College of Financial Planning. With his free time, Nick enjoys golfing, fishing and attending sporting events.