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Tax Savings Strategies – AS EASY AS 1-2-3

When working with clients, we find that everyone wants to save on taxes and be smart with their money. However, many times we see clients missing out on some strategies that could produce smart savings right now. Here are some of the top ones that could make a difference for you right now:

1. Truly leveraging 529 education savings accounts!
   a. If you are paying for college tuition or private school tuition for a son or daughter, niece or nephew, or grandchildren, this is one of the best ways to save and grow money, and at the same time take advantage of some in-state tax deductions! Also, you can be fairly creative with this if you would like to be.

   For example, if you are paying K-12 private school tuition, did you know that you can put money into a 529 account, which is deductible up to $5K per married couple per year, and then you can take it right back out to fund the school tuition. If you have multiple children, you can do $5K per year per child. If you have three children, instead of just paying $30K per year for their private school tuition, you could deposit $15K ($5K per child) into a 529, and keep it in cash, and then take it out the following week to go towards their private school tuition. You are still paying $30K, but you are getting $15K as a tax deduction in Maryland! (A point of note: each state has different relative state deductibility limits. For this article I am specifically referencing the Maryland plan administered through T Rowe price. Also, for K-12, you can only pull out $10K per year from the 529, but for college you can pull out as much as you want.)

   b. Did you know that you can front-load funding a 529 for up to 10 years. If you would want to fund a child's college in full today, you could deposit $50K right now, and claim the $5K deduction this year and then roll over the next 9 years of tax deductions into following years!

   c. Did you know that you can open 529 accounts for nearly anyone – your children, your nephews, and even for yourself, and can transfer it to any beneficiary. So technically, a parent could open up a 529 account for the Mom and Dad and also their Son/Daughter and deposit $5K in each account and then transfer the Mom and Dad's accounts to the Son/Daughter to obtain a $15K state of Maryland tax deduction per year!

2. Taking advantage of charitable tax deductions!
   a. If you are over 70.5 years old and need to take out Required Minimum Distributions (RMD's) from your IRA's, and you are already giving to charity each year, this could be a great way to give instead! The reason this is a great benefit is because if you gift your RMD directly to the charity, you don't pay any income tax on this distribution and neither does the charity! This would be a far better way to give money to charity in retirement than just cash gifts!

   b. If you have appreciated stock or securities in a non-retirement account, you can gift that stock to a charity instead of recognizing capital gains. For example, if you bought Apple Stock many years ago and it has significantly appreciated, and you don't want to pay the capital gains tax on it, you can gift that stock to the charity and neither you nor the charity would pay taxes on it!

   c. Have you heard of a Donor Advised Fund? If you are taking the Standard Deduction and not necessarily benefiting from the charitable itemized deduction because of that, then you can instead decide to fund several years' worth of contributions in one year to a Donor Advised Fund. In that one year, it may make more sense to itemize your deductions and include your charitable contributions. A Donor Advised Fund is a fund you can setup in your name that is like a savings or investment account that can be used towards charitable contributions. In practice, every few years you can do this, and in the years that you take the Standard Deduction, instead you can take withdrawals from the Donor Advised Fund to give to your charity of choice.

   d. Did you know your retirement accounts upon your death can go to charity. This can be a great way to gift as your children won't have any taxes to pay on the retirement accounts nor will the charity. And instead of gifting the money to your children through retirement accounts, another option could be for you to obtain more life insurance which will be received by your children tax-free anyway!

I hope this was helpful and your head is not spinning! These are some great everyday strategies that can create for you and your family some serious tax savings - if you do it right!

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