The Benefits of Integrated Tax Planning & Financial Planning

People often compartmentalize personal financial planning separately from tax minimization, perceiving taxes to be a once-per-year event. This can be a costly mistake. As you know, the U.S. tax code is extremely complex, and nearly all of our financial activities – investing, buying insurance, estate planning – have tax ramifications.

In our experience, households that do not take an integrated approach to financial planning and tax planning end up sending more money than they have to on a one-way trip to Washington D.C. This results in a significant and unnecessary loss of wealth.

The graphic below illustrates what you would be missing out on by paying an additional $10,000 per year in taxes. Believe it or not, this is not all that uncommon.

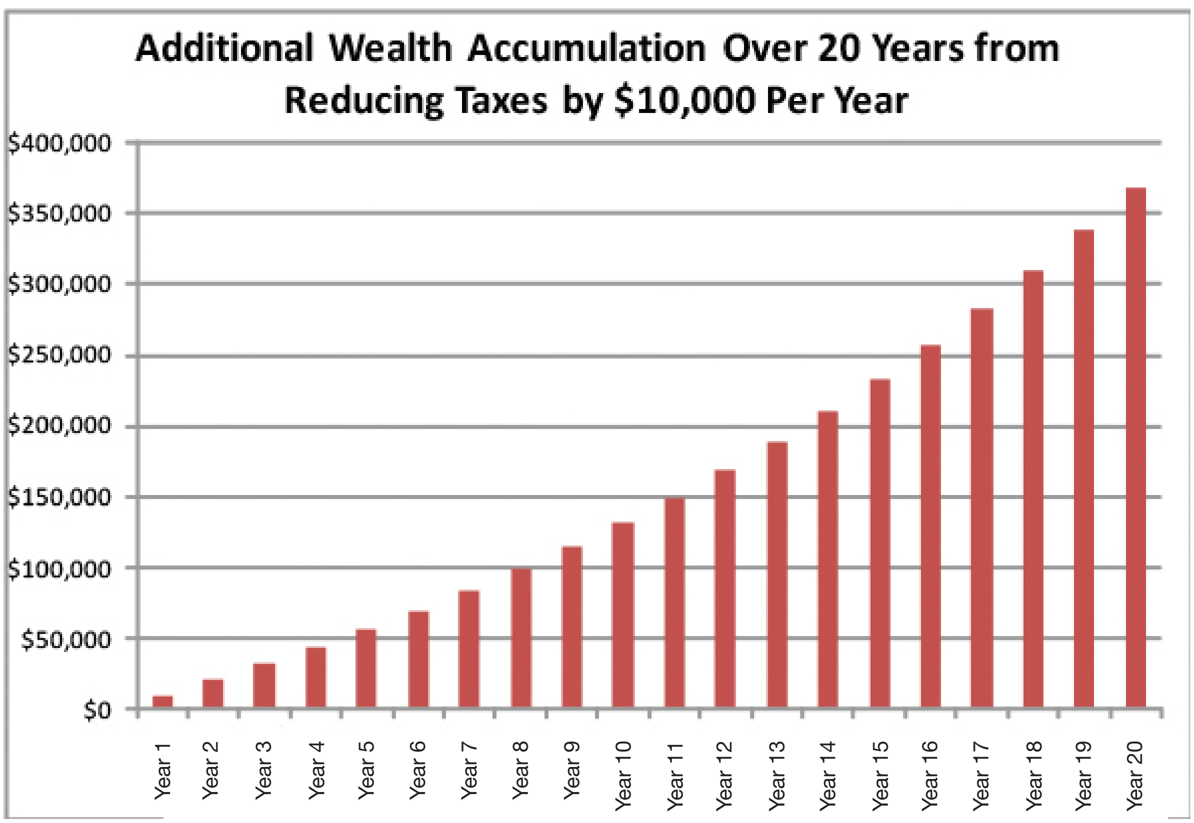

Figure 1 This graph assumes you would invest the tax savings and earn an average 6% return on investment. The tax advantages shown in this chart calculated by Reby Advisors and Kosar and Company.

Kosar & Company, PC

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So, what's the solution?

By fostering communication and collaboration between a Certified Public Accountant (CPA) and an experienced CERTIFIED FINANCIAL PLANNER™ (CFP®), you can avoid paying more than you're required in taxes. The value that both a CPA and a CFP® bring to the table can't be underestimated; communication and collaboration between them is the most productive way to avoid the financial pitfalls that come with a lack of preparation for your financial future.

This collaborative approach to financial planning and tax planning will help with the following:

i. Minimizing Capital Gains Taxes

ii. Retirement Planning

iii. Trusts and Estates Planning

iv. Accuracy in Capturing all Deductions

v. Long-Term Care Insurance

vi. Retirement Planning for Business Owners in a Tax-Efficient Way

i) Minimizing Capital Gains Taxes

When capital assets, such as investment property or bonds, are sold for more than the purchase price, the result is capital gains, and you're liable to pay capital gains tax on the difference between the purchase value and the sale value. If the asset sells for less than the purchase price, however, it results in a capital loss.

When it comes to tax time, you're able to offset the capital losses you've realized during the year against any realized capital gains. In addition, you can also offset up to $3,000 of capital losses against taxes on other income, or even carry forward any losses that are over and above this amount until they're completely offset against future capital gains.

This is where effective communication between your accountant and your financial advisor is essential. By understanding your tax situation from communication with your CPA, your advisor can strategically buy and sell assets in a more tax efficient way.

ii) Retirement Planning

Most retirees have both qualified or non-qualified accounts. As part of your long-term retirement plan, it's essential to know when to withdraw from which type of account. Qualified plans have tax advantages, and if you have a high profit from your investments in a specific year, it's usually better to withdraw money from a qualified plan than a non-qualified plan.

However, during down years when you're not achieving high profits from equities, withdrawing from a non-qualified plan is often advised, as it may be considered a loss, or your tax bracket will be lower than it would be during a bull market.

iii) Trusts and Estates Planning

When you're planning what happens to your estate after death, it's important to know that both trusts and estates are taxable. There are, however, many opportunities for tax reductions.

If you have a trust, for example, collaboration between your CPA and your financial advisor can help your trustee save on taxes. Within a trust, capital gains of $12,300 or more falls into the 39.6% tax bracket. In this situation – as in many other scenarios – as long as the trustee (assuming he or she is single) earns less than $413,200, it's advisable to send him or her the gains instead of keeping the gains in the trust.

The below chart illustrates the difference in Trust Taxes vs. Income Taxes owed, in a scenario where there's a $20,000 capital gain, and the single trustee earns $100,000 a year in taxable income:

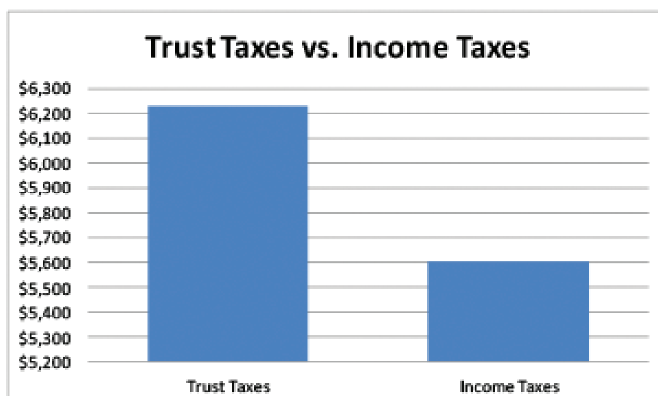

Figure 2: This chart compares the taxes owed on gains within the trust vs. gains paid to the trustee. Based on the 2015 Tax Rate Schedule provided by TRANSAMERICA®.

iv) Accuracy in Capturing all Deductions

In order for your CPA to minimize your taxes and accurately report your income to the IRS, he or she needs the right information from your financial advisor including:

- Purchase prices and dates
- Commissions paid
- Stock splits and mergers
- Insurance policies
- Retirement plan contributions

This is a basic communication between your financial planner and your CPA, but it's also essential.

v) Long-Term Care Insurance

The government offers tax incentives on long-term care insurance to support people who take responsibility for their own care needs in the future. In a nutshell, the income you receive from a long-term care insurance policy isn't taxable, and the insurance premiums you pay are tax deductible, as they're classed as medical expenses, as long as your policy has a number of features.

These features, as advised by the IRA in their Publication 525, 'Taxable and Nontaxable Income'[1], are as follows:

- Be guaranteed renewable
- Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed
- Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract may be used only to reduce future premiums or increase future benefits
- In most cases, not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer or the contract makes per diem or other periodic payments without regard to expenses

There is also a tax incentive for transferring money from non-qualified annuities and cash-value life insurance policies into long-term care insurance. While you would usually be taxed for withdrawing interest from one of these sources, if you were to pay your long-term care insurance premiums with the money, it won't be taxed.

If you've purchased long-term care insurance from your financial advisor, it's essential that communicates with your accountant so that you can claim the appropriate deduction.

vi) Retirement Planning for Business Owners in a Tax-Efficient Way

If you're a business owner, the responsibility for planning your retirement, as well as contributing to that of your employees, lies squarely on your shoulders. Your CPA can advise you exactly how much can be contributed to each type of retirement account available, and your financial advisor can strategically choose the types of investments to be held in each type of account.

The below graph illustrates the advantage of investing within a tax-deferred account, over a 20 year period, assuming you'll earn a 6% annual return and are in the 30% tax bracket:

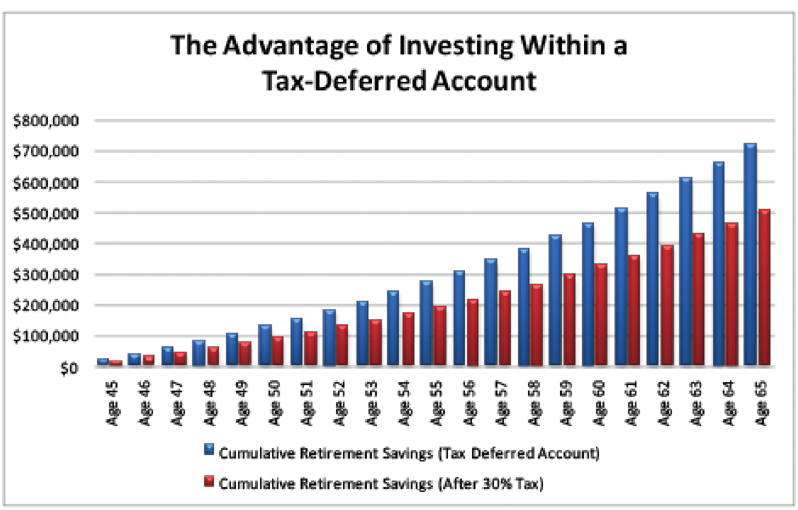

Figure 3: The tax advantages shown in this chart calculated by Reby Advisors and Kosar and Company.

Here are some examples:

SEPs

Simplified Employee Pensions are suitable whatever size your business is: large or small. SEPs are funded solely by the business owner with no contributions from employees - up to 25% of employees' compensation, with a limit of $52,000. SEPs are tax deductible as a business expense, and allow for immediate vesting, with no fees involved for set-up and maintenance.

401K

401Ks offer the most flexibility and the highest rates of contribution. The money is taken out of the employees' pretax wages and capped at $18,000 per year. For sole proprietors, or businesses that consist only of the business owner and their spouse, Solo 401K plans are available. You're required to file a Form 5500 each year once plan assets reach more than $250,000.

SIMPLE IRA

Savings Incentive Match Plan for Employees are an affordable option for businesses with 100 or fewer employees, where employers match their employees' contributions.

Integrated tax planning and personal financial planning can help you avoid sending more money than you have to on a one-way trip to Washington D.C. Considering that taxes are the largest expense in many households, tax minimization should be a primary focus of any financial plan.

Although this paper was produced to give advice and assistance to those looking for tax and personal finance help, it isn't a substitute for professional and personalized advice.

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