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Helping You Create Financial Independence

YEAR END PLANNING SAVES ON TAXES

(as printed in the Highlands Ranch Herald on December 18, 2014)

Finance by Patricia Kummer CFP®

It is always important to plan for taxes, both to reduce the possible tax liability and to plan for the potential amount due. Effective tax planning this year may save you a bundle.

Starting with a major tax law change in 2013, this will be the second year of higher tax brackets, reduced write-offs and additional payroll taxes for some households. This year the Affordable Care Act investment tax of 3.8 percent kicks in for those in the highest tax bracket. This may be a rude awakening for many investors who are not planning on paying an extra tax on investment income or gains. Many taxpayers have been using up tax losses since the Great Recession. This year may be a surprise when you get your tax report early next year. This is where you will see how any mutual funds you held during the year have pushed through taxable profits to their shareholders, even if you did not place any trades. You may find that the bull market on Wall Street has hit your pocketbook as many mutual fund money managers no longer have losses to use up against gains either. Now you may see some higher taxable income on your investment report than normal.

It is crucial to get with your tax or financial advisor before the last week of the year and see if there are any advantages to making adjustments in your investment portfolio. If you are in a low tax bracket and want to take advantage of the ten and fifteen percent cap on long-term capital gains, or if you are in the highest tax bracket and can harvest losses, it is worth a phone call.

Next, take a look at your income and determine if you have maximized your 401k or IRA for the year or if you can defer income into the following year. Some self-employed folks can take advantage of higher limits on 401k contributions and may benefit from last minute business expenses or office improvements that can be written off.

Consider maximizing your Health Savings Accounts and fund college 529 plans. Also be sure and make your charitable contributions with appreciated stock if possible.

If you pay estimated taxes, consider paying your fourth quarter Colorado state tax payment in December instead of waiting until January 15th. You may be able to deduct the payment on your Schedule A. Consult your tax advisor to make sure this does not trigger Alternative Minimum Tax (AMT) or is not more beneficial in 2015.

Starting last year, workers earning over $200,000 ($250,000 for joint returns) will pay an additional .09 percent Medicare tax on your wages. For single incomes over $400,000 or joint incomes over $450,000 there will be an additional 3.8 percent tax on investment income and

Patricia Kummer, CFP® ◆ Certified Financial Planner™ ◆ 8871 Ridgeline Boulevard, Suite 100 ◆ Highlands Ranch, Colorado 80129

TEL 303-470-1209 ◆ FAX 303-470-0621 ◆ 1-877-767-0763 ◆ www.kummerfinancial.com

profits. Some tax payers will lose itemized deductions or the ability to take the American Opportunity tax credit for your college student.

Check into paying your property taxes in December for the next year. You may also be able to pay your December mortgage payment the last week of December instead of the first week of January. Review how close you are to the next tax bracket and if some of these extra payments will help keep you out of losing deductions and increasing taxes.

Whatever tax planning you are able to accomplish, the payoff will likely be more beneficial than in prior years. It is not too early to start planning for taxes in 2015 as well. After all, the goal is to keep more of your dollars working for you which means never having to pay more taxes than necessary.

Patricia Kummer has been an independent Certified Financial Planner for 28 years and is President of Kummer Financial Strategies, Inc., a Registered Investment Advisor in Highlands Ranch. Kummer Financial is a 5 year 5280 Top Advisor. Please visit www.kummerfinancial.com for more information or call the economic hotline at 303-683-5800.Any material discussed is meant for informational purposes only and not a substitute for individual advice.

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