Financial Moves You Should Consider for 2013

In an Eleventh-Hour deal, Congress managed to avoid the tax disaster that had come to be known as the Fiscal Cliff. The ball was dropping in New York City and Americans were facing an unknown tax policy for the upcoming April 15th filing deadline. When all was said-and-done, America had new, sweeping tax legislation with far-reaching implications for taxpayers.

With this in mind, there are some considerations that taxpayers may wish to evaluate.

First, take a good look at your assets and investments. There has always been an important emphasis on how assets are allocated. With the new tax legislation, more taxpayers—especially those with higher income—are facing increased income taxes, Medicare surtax, and additional tax on unearned income. Almost all wage-earners are seeing more taxes on their pay stubs because of the end of the 2% payroll tax holiday.

These higher tax exposures should emphasize the time to consider shifting more assets into positions that offer tax advantages and away from positions that create taxable income and events. Individual Retirement Accounts, 401(k)'s, annuities, and even cash value life insurance, if structured properly, can provide more tax efficiency because they allow funds to grow without current tax consequence. Cash values in life insurance can be accessed tax free in the form of policy loans and withdrawals, and as such providing favorable investment growth and tax efficiency.

Second, consider a Health Savings Account for your medical expenses. An HSA is a combination of a high deductible health insurance program and an affiliated tax-favored savings account. Contributions to the savings portion are tax deductible, and withdrawals for qualified medical expenses are tax free. The HSA savings account can roll over from year to year, thus providing an efficient mechanism to provide for future health costs. An HSA is the only tax savings program that can be contributed to and withdrawn from with maximum tax benefits. Since the deductibility of medical expenses is increasing from 7.5% of adjusted gross income to 10% of adjusted gross income, an HSA may be the last remaining way many Americans can receive tax benefits from their medical expenses.

Third, consider converting your IRA into a Roth. While it is true that income taxes must be paid on Individual Retirement Accounts being converted, it may be wise to make this tax maneuver before investment gains cause these funds to grow further. Even converting part of an IRA into a Roth would allow that account to enter a new realm of tax efficiency—one where the future retirement withdrawals could be without any tax consequence. Roth conversions are ideal in a tax year where a taxpayer may be facing reduced or even negative income as a result of large deductible expenses or a loss of income.

Last, evaluate charitable and family gifts. A high-income taxpayer may find themselves being "Nickel and Dimed" with taxes on both income and capital gains. If the ultimate plan is to

give to children or charities, there may not be a better reason than to do it now. The 2013 gift-tax exclusion is $14,000 per recipient. A married couple can make a completed gift of up to $28,000. That gift stops generating taxable income for the donor and may be provide a lifetime of remembrance, especially if made in the form of a college savings account like a Section 529 plan. Section 529 plans, by the way, allow up to 5-years' of gift-tax exclusion to be made in one year and as a result an individual could give up to $70,000 ($140,000 for a married couple) to a child or grandchild's education. The two-sided benefit could be something remembered for generations.

Tax regulations are always confusing and frustrating. As Congress determines how to deal with the staggering federal debt, the reality is that increased taxes are here to stay. It is likely we will continue to see more increased taxes in the future as well. Learning how to prepare and position for higher taxes should be a priority to every wage earner and taxpayer. Speak to your tax professional or a qualified financial planner to discuss your specific situation and your financial objectives. 2013 is only 6 weeks old. A negative tax situation will only grow more negative without action.

Gary W. Beard, CLU, ChFC, is the owner of Beard Financial Group, and is a local, independent financial advisor and planner and has over 38 years experience in the financial community. Mailing address 26910 92nd Ave. NW, Suite C5 Box 470, Stanwood, WA 98292. (360) 387-2372 (866) 217-3350. Securities offered through KMS Financial Services, Inc., Seattle WA www.beardfinancialgroup.com