Holiday Gifts from the IRS

When we were children, we were taught that it is better to give than to receive. While this adage is true in most instances, in cases where the Internal Revenue Service is on the other side of the transaction, most of us have a fairly strong preference for receiving rather than giving. Although it may surprise you, there are things you can do to allow for a few gifts from your dear friends at the IRS during this season of giving.

At Thanksgiving time, you should embrace the harvest theme by "harvesting" some tax losses from your investment portfolio. In case you are not familiar with how tax harvesting works, here is an example: Let's say you own 15 mutual funds in your portfolio, 12 of which have been profitable and 3 of which have lost money. You can "harvest" losses by selling the three funds that are down, and replacing them with three new funds that have similar objectives to the funds that were sold. Selling the 3 funds allows you to generate capital losses that can be used to offset current or future capital gains, and since you are replacing the funds that were sold with similar funds, this strategy does not cause a significant change in the composition of your portfolio.

Charitable contributions offer another opportunity to benefit from the munificence of the IRS during the holiday season. For most taxpayers, some or all of the donation to a qualified charity is deductible from taxable income. In essence, a charitable donation is two gifts: one from you to the charity, and the other from the IRS to you.

The IRS is also surprisingly generous when it comes to company retirement plans. If your employer offers an employer-sponsored retirement plan such as a 401(k) or 403(b), your retirement contributions to this plan are usually tax-deductible. In addition, many employers, perhaps inspired by the virtue of the IRS, add to the IRS's gift by matching a portion of your retirement plan contributions out of their own pocket. As the end of the year approaches, you should take a few minutes to ensure that you have contributed as much as possible to your company retirement plan. Once the clock strikes midnight on New Year's Eve, you can no longer make 401(k) contributions for 2014.

Being on the receiving end of the IRS's gift giving is certainly satisfying, however, you also need to becareful not to end-up on their naughty list. For example, if you do sell any securities to take advantage of the tax-loss harvesting strategy mentioned above, you must wait at least 30 days to re-purchase any of the *same* securities you have sold. This is why the harvesting strategy involves

(continued on back)

HIG HERITAGE INVESTMENT GROUP

purchasing *similar*, but not *identical*, securities to replace those that were sold. If you do repurchase identical securities within the 30-day window, you trigger the "wash sale rule," which negates the tax advantages of the sale. So be good for goodness' sake.

Also, if you are older than 70 1/2 years of age before December 31, you typically must withdraw a certain percentage of your 401(k), individual retirement accounts, and other retirement plans each calendar year in order to fulfill your IRS-mandated required minimum distributions (RMDs). Failure to take these required distributions can result in penalties of 50% of the required withdrawal amount that was not taken. This is even worse than coal in your Christmas stocking.

As with most magnanimous uncles, Uncle Sam's gifts often come with exceptions and strings attached. Your ability to personally benefit from the generosity of the Internal Revenue Service will depend upon your own individual tax situation, so you should consult with your tax advisor before accepting any of these holiday gifts. From all of us at Heritage Investment Group, we wish all of you a wonderful holiday season, and all the best for the New Year.

Heritage Investment Group provides wealth management and investment guidance to high-net-worth individuals, families, charitable foundations and qualified plans. We provide seasoned financial guidance, with respect and integrity, backed by a disciplined investment process. Since 1993 we've built our firm on a strong foundation of family and friendships with guiding principles of ethics and integrity.

The original version of this article was written by Heritage for the November 2014 edition of The Light, a local magazine serving Broward County, Florida.

H|I|G HERITAGE INVESTMENT GROUP

2480 N.E. 23rd Street, Pompano Beach, Florida 33062
Phone: 954.785.5400 Fax: 954.933.0966

115 South Fielding Avenue, Tampa, Florida 33606
Phone: 813.258.1759 Fax: 813.254.3756

www.heritageinvestment.com