Preparing for the 2021 Tax Season
How a financial advisor can help you manage your taxes this year

Reducing your tax burden can help you manage your wealth and free up money to meet your financial goals and build your legacy. But tax rules are complicated, and you may need help understanding all the methods you can use to minimize your tax burden. Your financial advisor is one resource you can tap to help you develop strategies that fit your plan and reduce your tax exposure in 2021. Here are four ways they may be able to help.

Tax-deferred accounts
Your financial advisor can help you set up and manage tax-deferred investment vehicles, such as IRAs and 401(k)s. These are some of the most powerful tools you can use to minimize your tax burden. Contributions are made with pretax income, which means they lower your taxable income in the year you make them, providing immediate tax savings. Earnings inside the account grow tax-free until retirement. Withdrawals made after age 59 ½ are taxed at your normal income tax rate. In 2021, you can contribute up to $19,500 to a 401(k) and $6,000 to an IRA. If you're age 50 or older you can make an additional catch-up contribution of $6,500 in your 401(k) or $1,000 in your IRA.

Giving gifts
Giving away your money can help lower your tax burden as well, and a financial advisor can help you navigate your options. If you support a charity or other nonprofit, you can deduct contributions to reduce taxable income. In 2021, charitable givers can take a $300 above-the-line deduction ($600 for married couples) even if they don't itemize on their taxes. If you do itemize

your deductions, you cannot deduct no more than 100% of your adjusted gross income in 2021. Be sure to get receipts documenting your contributions and save them for your records.

You may also reduce your taxable estate by gifting money. The annual gift exclusion is $15,000, which means you can give away that amount to as many people as you like without triggering federal gift tax consequences. The lifetime gift tax exclusion is $11.7 million for 2021, meaning an individual can leave that amount to heirs without triggering federal estate or gift tax.

Health savings accounts
If you're enrolled in a high-deductible health insurance plan, you may have the option to contribute pretax income to a health savings account (HSA). Contributions to HSAs are tax-deductible, and individuals can contribute up to $3,600 or $7,200 for those with families. Much like a retirement account, an HSA allows you to invest your savings. Withdrawals from an HSA for qualified medical expenses are tax-free. And after age 65, if you make withdrawals for any reason other than qualified medical expenses, your withdrawals are taxed at your income tax rate. A financial advisor can help you determine whether or not you are eligible for an HSA and maximize your savings.

Tax-loss harvesting
When you sell a stock and make money, you realize a capital gain, and you'll owe capital gains tax. But if you lost money, that's a capital loss, which you can use to offset other taxes. Tax-loss harvesting is a strategy by which you sell off investments that have lost value and replace them with similar investments. You can then use your losses to offset capital gains from other investments.

Capital losses can also be used to offset income taxes. If you have more capital losses than gains you may be able to offset up to $3,000 of federal income tax per year. A financial advisor can help you keep track of your investment gains and losses throughout the year.

The strategies above need to be in place long before you go to file taxes, so working closely with a financial advisor throughout the year is key to minimizing your tax burden in 2021 and beyond.

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Disclosures: