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5 Tax Tips For Millennials - And Others Who Want Lower Taxes



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As the tax-filing deadline nears, many people are looking for legitimate ways to lower their tax bills. While the government doesn't make it easy, I can offer a few tips—especially for younger workers—that can help reduce that tax amount payable to Uncle Sam.



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1. Fully participate in any company-sponsored retirement plan. Whether it's a traditional 401(k) or a Roth 401(k), a salary deferral into your company-sponsored retirement plan can reduce taxes now or in the future or both. The decision to contribute to a traditional 401(k) account versus a Roth 401(k) is complex, but generally speaking, a younger worker with a relatively low income can benefit from a Roth 401(k).

This is especially true if your tax rate in retirement will be higher than it is now. While a Roth contribution will not produce an immediate tax deduction, it can provide, subject to certain terms and conditions, a stream of tax-free cash flow in retirement.

Keep in mind that even if you are contributing to a Roth 401(k), your company match goes into the traditional 401(k) bucket. This is because the employer contribution is an expense to the company and is considered a pre-tax contribution. When you withdraw from this bucket, the government will collect any ordinary income tax due on the matching contribution as well as any gains. The good news is there is no need to worry about any complex accounting for this split arrangement; the plan administrators handle all that for you.

2. Consider the benefits of life insurance. Whole life insurance policies—whether they're called traditional whole life, universal life, variable life, or any derivative thereof such as indexed universal life—offer the opportunity to withdraw accumulated cash value on a tax-favored basis when certain criteria are met.

The specifics of each type of policy vary, which can create a complicated decision for a potential buyer. Therefore,

careful consideration should be given to the type of contract you purchase. It is important to search for an experienced, ethical, and knowledgeable insurance professional who can guide you through the complexities while keeping your interests paramount.

3. If you have full or part-time self-employment income, consider all available tax deductions. Many Millennials are choosing to start their own businesses and work for themselves—and that has a lot of tax implications.

Whether your self-employment is a part-time supplement to a more traditional career or you are fully embarking on your own, it is wise to work with a qualified CPA. According to Eric Wexler, a CPA in Rockville, MD, “ongoing consultations with a competent tax advisor can help you uncover legitimately available tax deductions, explore which form of business structure works well for you, and which type of retirement plan might be a good fit.”

4. Consider home ownership. I have written about how changes in the tax law have impacted [the benefits of owning a home](#) for higher earners in high-tax states. But for younger Americans who have not yet hit their full income potential, home ownership still represents a favorable tax opportunity.

Given their station in life, a younger person isn't likely to borrow more than the \$750,000 limit that the recently passed Tax Cut and Jobs Act of 2017 instituted. And, unless earnings are near the upper end of middle class or higher, at least a portion of your property taxes may still be tax deductible—even in some higher-tax states.

Furthermore home ownership, provided you are repaying principal and interest each month, can serve as a forced savings strategy. If you are fortunate to have gains in your home when you sell, there is still a capital-gain exemption subject to certain requirements being met.

5. Examine your personal debt – but be aware of changes in the tax law. If you have student loans, auto loans, or other personal debt, you may want to consolidate some of these and look for a lower rate of interest. In the past, using a home equity line of credit was a tax-smart way to accomplish this.

However, the recently passed [Tax Cut and Jobs Act](#) unfortunately eliminated the ability to roll non-home-improvement debt into a home equity loan and deduct the interest. As with any tax strategy, even something as basic as using a home equity line of credit, it is wise to consult a tax advisor or do some deep research on your own.

While the government doesn't make it easy for anyone to benefit from tax-minimization strategies, there are still a few smart tactics that you can discuss with your tax advisor to help make your tax bill less painful. An integrated, comprehensive approach will take time to develop and effectively implement, but the benefits of including tax planning into your overall financial planning can be significant.