ACTION FINANCIAL STRATEGIES LLC

UNEARNED INCOME

Are you paying more taxes than you need to?

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Answer: Maybe?

I'll give you an example, let's say you have a non-retirement account such as an individual or joint account invested in the market or somewhere that has generated growth and a return on your investment. When going to file and prepare an income tax return, in typical fashion you collect all of your tax documents from all your various accounts and take these to a tax preparer to prepare and file your taxes. In the end, you may have a refund or you may be paying into the Treasury for an underpayment of taxes.

What you may not be paying attention to is that for most people who are saving and investing for their future goals, when any gains or dividends are paid in their non-retirement accounts (non-IRA or ROTH IRA accounts,) they are just typically reinvested for more shares and ideally to continue to grow the account.

A key point you should be aware of -- these gains and dividends still flow through to your taxes and are accounted for each year.

I'll share two scenarios:

1 A client had a considerable amount of money in high dividend paying bonds because he believed them to be a good investment. But the income that was being generated was such that about 40% of his gains were going to taxes. I took a look at moving him to a more conservative and yet Federally tax-free municipal bond portfolio, and was able to keep his net return the same or slightly better, as well as reduce the risk profile of the account.

2 Another more common example is an investor who had been putting their investment savings into retail mutual funds. These funds had turnover as well as income and gains pushed out to my client at the end of the year, which incidentally they never saw because the accounts were defaulted to reinvest these for more growth. This triggered unearned income and dividends to be reported on their taxes, which they had to account for. We decided it made sense to move to a

tax-managed account. This is a managed portfolio strategy where the manager specifically looks for ways throughout the year to offset gains by taking strategic losses. These accounts can be managed more strategically because they only allow non-retirement accounts to be managed in these models.

Depending on your situation, it may beneficial to review your unearned income and what you are paying taxes on each year, and adjust your investing as necessary. These income values can typically be found on lines 7-8 of your Form 1040 tax return as well as schedule 1, if applicable, which outlines additional income and adjustments to income.

These are just a few examples and past performance is no guarantee of future results, nor is any strategy mentioned right for every situation. This is why we are glad to offer a second opinion in order to guide you from uncertain towards confident in your ongoing financial decision making.