5 Common Mistakes Your Tax Return May Reveal

What does your tax return say about your financial situation? The paperwork you file each year offers excellent information about how you are managing your money—and the areas where it might be wise to make changes in your financial habits.

By taking the proper steps, your tax return will be transformed from a passive bag of receipts to proactive tax planning to help you reach your goals. As we prepare to file your taxes, we often identify common planning mistakes and missed opportunities. Below are five red flags that may present problems.

Mistake 1: Holding Title to Your Assets
One of the most common financial planning mistakes we see is a failure to make a transfer on death (TOD) designation. How you title your assets matters. Consider an asset held in joint name. In the event of your passing, this asset will automatically become owned by whomever the joint owner is through rights of survivorship. If you wish to appoint this asset to someone else, the asset may need to pass through probate before the transfer can be made. Probate, the courts process of gathering and distributing a deceased person's assets, can take anywhere from 6 months to 2 years to complete. You can avoid probate by making a transfer on death election. We suggest speaking with an attorney to determine if your state has probate laws.

Mistake 2: Holding Too Many Accounts
We often accumulate accounts as we do our financial planning. Changing jobs or advisors or diversifying your portfolio can result in a multitude of assets. If your pile of 1099's is growing, it may be time to reevaluate your strategy. While it may have worked in the past, holding too many accounts can lead to recordkeeping problems. Consolidating accounts will not only reduce your bookkeeping but also make overseeing and monitoring your accounts more manageable.

Mistake 3: Capital Loss Carryforwards
Capital losses can be used to offset other gains, but only $3,000 of that loss can be deducted from all other income, per year. Losses exceeding this threshold can be carried forward and applied to future tax years. When we see losses carried over year after year, it often indicates a lack of coordination between a tax plan and investments. Your tax plan should harmonize with your investments. One approach is to create gains to utilize your carryforward losses.

Mistake 4: Not Understanding Your Trust Benefits
Beneficiaries of trusts will receive a K-1 form to report their share of income and losses. If you are the beneficiary of a trust, find out who is in control of these assets and determine what authority, if any, you have to make changes. We encourage the beneficiary of any trusts to be proactive by asking

questions and learning more about what they have control over, especially since it will ultimately impact their financial situation.

Mistake 5: Pass-Through Income Considerations
Businesses with pass-through income status don't have to pay business taxes at the entity level. Instead, all income passes through the owner's individual tax return and is taxed by the IRS at the personal tax rate. Under the new tax code, owners, partners and shareholders of S-corporations, LLCs and partnerships will receive a tax break. As long as they aren't part of the carve-out group, those who pay their share of the business' taxes through their individual tax returns will have a 20 percent deduction starting in 2018.

This deduction is a great financial planning opportunity, but there are exceptions. Qualifying for the deduction depends on your income threshold and what field your business is in. High-earning professionals that exceed the income threshold, such as physicians and attorneys, will likely not qualify. Likewise, those who hold occupations that provide a personal service, except engineering and architecture, are prohibited from taking the deduction. These industries include health, law, accounting and financial and brokerage services.

We can help you determine if you are eligible for this deduction and whether the business is equipped to financially handle the death or disability of an owner. It is essential that businesses with a pass-through income structure have a formal succession plan and updated buy-sell agreement with partners.

If you have questions about your financial situation, remember that we can help. Our firm is made up of highly qualified and educated professionals who serve as trusted business advisors and who work with clients like you all year long. We can review your financial situation and develop creative strategies to minimize your tax liability and help you meet your financial goals. Contact one of our professionals today.