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Eight Ways to Potentially Lower Your Taxes

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When it comes to filing your federal income taxes, it can pay to review your situation and plan ahead.

To lower your tax bill, here are eight possibilities to consider with your financial advisor:

1. Plan throughout the year for taxes

By planning throughout the year, you can determine your likely tax bracket and plan strategies to lower your taxable income.

- At the beginning of the year: It may seem early, but this proactive mindset will be worth it when it comes time to file. The sooner you start preparing for the tax season, the more flexibility you'll have to pursue tax strategies that could potentially benefit you.
- At the end of the year: Revisiting and considering year-end tax strategies may help you identify any final opportunities to reduce your tax bill. For example, you may realize you're able to contribute more pre-tax assets to your 401(k) at year's end, helping to reduce your taxable income.

2. Contribute to your retirement accounts

Contributing to retirement can be beneficial for both your long-term financial health and your near-term tax bill. Here are a few ways that contributions to your retirement accounts can help you achieve tax savings:

- Traditional 401(k): Because your contributions are withdrawn from your paycheck before you've paid taxes, your taxable income will be lower, potentially reducing the federal taxes you owe for the year. This can be especially important to consider if your income straddles tax brackets.
- Traditional IRA: Contributions may be tax deductible, depending on your income level and whether you have a retirement plan option at work.
- Roth IRA: Roth IRAs are funded with after-tax dollars, so contributions won't lower your immediate tax bill. However, you will benefit from tax-free distributions in retirement if certain conditions are met.

3. Contribute to your HSA

If you're in a high-deductible health plan, you might qualify for a health savings account (HSA). If so, consider increasing your contributions. Your contributions are pre-tax, which reduces your taxable income today. The account can grow tax-deferred and distributions can be tax-free if certain conditions are met. These are the only accounts that have this triple-tax benefit.

4. If you're older than 70.5 years, consider a QCD

If you are 70.5 years or older and would like to support a charity, consider making a qualified charitable distribution (QCD) up to \$100,000 directly from an IRA to a qualified charity. A QCD keeps IRA distributions from impacting your adjusted gross income (AGI) now and in the future. It works whether you take the standard deduction or itemize deductions, and it can count toward your required minimum distribution (RMD), if you have one.

5. If you're itemizing, maximize your deductions

A tax deduction reduces your taxable income. Consider whether the standard deduction or itemized deductions may be most beneficial based your circumstances. If you're planning to itemize (instead of taking the standard deduction), consider how you can take early steps to maximize the tax benefit by taking advantage of deductions that are only available to those who itemize.

Here are some top itemized deductions to consider:

- Qualified charitable gifts
- Unreimbursed medical and dental expenses that exceed 7.5% of adjusted gross income
- Mortgage interest deduction¹

6. Look for opportunities to leverage available tax credits

A tax credit reduces your tax liability, dollar-for-dollar. To ensure you're not missing new credits from the government, review potential credits available to you on a yearly basis. For example, the Inflation Reduction Act offers tax credits for taxpayers who purchase a qualified electric vehicle or make certain energy improvements to their homes.²

7. Consider tax-loss harvesting

If you experienced any investing losses, they can potentially become a tax-savings opportunity through a strategy called tax-loss harvesting. When executed properly, tax-loss harvesting allows you to manage and reduce your tax burden by selling investments at a loss to offset the taxes owed on capital gains from other investments. In summary, it's one way to use the tax code to reduce the sting of an investment loss. However, this strategy can be complex to employ, so please reach out to your financial advisor for personalized guidance.

8. Review opportunities to harvest capital gains

Harvesting capital gains to achieve tax benefits is the opposite of tax-loss harvesting, and the next couple of years may be an optimal time to employ this strategy thanks to temporarily lower tax brackets.

Here's why: In 2017, the Tax Cuts and Jobs Act temporarily reduced income taxes and brackets through the end of 2025. Barring a new law that extends these rates, it's worth considering strategic opportunities to sell certain assets that have experienced gains. If executed correctly, you could potentially pay taxes on the gains under more favorable tax brackets.

Your next tax bill may be higher due to the sale, but in the long run, you may realize greater tax savings than if you sell when the tax brackets return to their pre-2017 levels. Like tax-loss harvesting, this is a complex strategy, so reach out to your financial advisor for guidance on whether this opportunity is right for your unique situation.

We can help you identify tax-saving opportunities

A financial advisor at S&T Financial Services will review your financial situation with your tax professional and discuss how you may be able to take advantage of these and other tax-saving opportunities.

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¹Subject to certain limitations.

²Check with your tax advisor for specific requirements that must be met.

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