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Should I do my own taxes or hire a tax professional?

1 Determine what services you need

- **Tax Planning** – *Projecting your future tax situation and developing a strategic plan to minimize taxes owed.* Understanding what your tax situation will look like in both the current year and future years can help you make decisions that can reduce your lifetime tax burden. Knowing how your current tax rate will compare to future tax rates is valuable when asking questions such as:
 - Should I make Roth or Traditional 401(k) contributions?
 - Should I complete a Roth IRA conversion?
 - Do I need to make quarterly estimated tax payments?
 - Should I exercise company stock options?
 - How much will I owe at tax time?
 - When is the best time to realize capital gains?
- **Tax Preparation** – *Completing tax forms and filing federal and state returns with the IRS.* While tax planning is a proactive approach, tax preparation is reactive based on the taxable events that occurred during the calendar year. Tax preparation involves collecting tax documents, reporting them on a tax return, and filing the return with the IRS.

2 Decide if you want to do it yourself or hire a tax professional

- **Tax Planning** – It's no secret that the tax code is complicated! When it comes to projecting your future tax situation, it's best to leave it to a professional.
- **Tax Preparation** – While tax preparation can be complex, online tools such as TurboTax can make filing taxes manageable for the everyday person. Even so, some situations are complex enough that working with a tax preparer can help to eliminate costly errors.
 - Consider **filing your own tax return** if you:
 - Have a "basic" situation with minimal items to report
 - Receive a W2 from your employer and don't have any other income sources
 - Understand how taxes work and are willing to commit time to accurately filing your return
 - Consider **hiring a tax professional** if you:
 - Are self-employed or have multiple income sources
 - Experienced a major life change (e.g., got married, had a baby, moved)
 - Have stock options, RSUs, etc.
 - Bought or sold assets in the calendar year
 - Need to track tax items over multiple years (e.g., capital loss carry-forward, basis in Traditional IRAs)
 - Completed transactions such as Roth IRA conversions or Backdoor Roth IRA contributions
 - Want a professional to ensure that you are maximizing credits and deductions and avoiding costly errors

What tax documents do I need?

Common Tax Forms

1040	<i>The standard federal income tax return that is submitted to the IRS</i>
W-2	<i>Reports wages earned and taxes withheld from employment</i>
1099-B	<i>Reports proceeds from the sale of stocks, bonds, or other securities</i>
1099-DIV	<i>Reports dividend payments and capital gains distributions from stocks you own</i>
1099-INT	<i>Reports interest payments received</i>
1099-R	<i>Reports distributions from retirement accounts</i>
5498	<i>Reports contributions made to Individual Retirement Accounts (IRAs)</i>
8606	<i>Reports and tracks nondeductible IRA contributions (e.g., used to report backdoor Roth IRA contributions)</i>

Where do I find tax documents for my investment accounts?

- **1099-B** - Available if stocks or bonds were sold in a taxable brokerage account.
Expected to be available in mid-February.
- **1099-DIV** - Available if you received dividend payments or capital gains distributions within a taxable brokerage account.
Expected to be available in mid-February.
- **1099-INT** - Available if you received interest payments within a cash reserve account, such as a high-yield savings account.
Expected to be available by the beginning of February.
- **1099-R** - Available if you received distributions from a retirement account. This includes distributions for reasons such as Roth IRA conversions, completing the Backdoor Roth IRA strategy, IRA distributions, etc. You may receive a 1099-R if you rolled over a retirement account from one institution to another, depending on how the rollover was processed.
Expected to be available by the beginning of February.
- **5498** - Available if you made contributions to an Individual Retirement Account (IRA). Form 5498 is an informational document and is not required to be submitted to the IRS – your IRA provider reports the contributions on your behalf.
Available by May 31.

Where do I find tax documents for my investment accounts? (cont.)

- **Betterment** – Betterment will email you when each tax form is ready. You can access the forms within your Betterment portal by clicking: Documents > Taxes.

Tax software including TurboTax, H&R Block, and TaxAct will allow you to automatically import Betterment tax details into their software by providing your Betterment username and a special, one-time use password. To generate this password from within your Betterment portal click *Settings > Security > Generate a New App Password* and indicate the application the password will be used for.

- **Fidelity** – Fidelity will email you when each tax form is ready. You can access the forms within your Fidelity portal by clicking: Accounts & Trade > Tax Forms & Information.

Tax software, including TurboTax, H&R Block, and TaxAct, will allow you to automatically import Fidelity tax details into their software by providing your username and password.

Taxes 101: Common Tax Terms and Strategies

- **Ordinary Income Tax** – Tax due on income that is taxable at rates subject to the standard tax brackets. It includes income sources such as wages, Traditional IRA distributions, commissions, interest, rents, etc.
- **Capital Gains Tax** – Tax due on the profit earned on an investment when it is sold. Investments owned for less than one year are subject to short-term capital gains tax, which is determined by your ordinary income rate. Investments owned for greater than one year are subject to long-term capital gains tax, which is often more favorable than the ordinary rate.
- **Cost Basis** – The amount paid to purchase an asset. The cost basis is important for calculating and reporting capital gains tax. It is reported on form 1099-B.
- **Tax Loss Harvesting** – The practice of selling a security that has experienced a loss and replacing it with a similar security to maintain the desired asset allocation. The loss can be used to offset taxes on other gains and income. Tax loss harvesting will be reflected on Form 1099-B.
- **Roth IRA Conversion** – The practice of moving funds from a Traditional IRA into a Roth IRA, often done to optimize taxes over your lifetime. The amount converted will be subject to ordinary income tax and will be reported on Form 1099-R.
- **Standard Deduction** – A specific dollar amount defined by the IRS that reduces the amount of income that you are taxed on.
- **Itemized Deduction** – Specific expenses that can be claimed on your tax return to reduce taxable income. These expenses include amounts you paid for state and local income tax, real estate taxes, mortgage interest, charitable donations, medical expenses, etc. If the sum of these expenses (subject to certain limits) exceeds the standard deduction amount, you can use your itemized deduction total to further reduce the amount of income on which you are taxed.
- **Tax Credit** – A credit that reduces the amount of taxes owed. It is a dollar-for-dollar reduction in your tax liability (or increase in your refund), whereas deductions only reduce the amount of income you are taxed on. Common credits include the Child & Dependent Care Credit, Child Tax Credit, American Opportunity Credit, Lifetime Learning Credit, etc.

Year-End Tax Planning Moves

- **Make Contributions to IRAs (Individual Retirement Accounts)**

When? Before you file your taxes.

If it's part of your financial plan, consider "maxing out" your IRA by 12/31. If you don't have the cash flow to contribute by 12/31, don't worry! Just make sure you do so before you file your taxes next year.

- **Make Contributions to 529 Education Accounts**

When? Before 12/31.

For clients living and contributing to 529s in states with a state income tax deduction for contributions (like Ohio), be sure to contribute to those plans before 12/31 to claim this year's deduction.

- **Perform Conversions from Traditional IRA to Roth IRA**

When? Before 12/31.

If you are planning to do the Backdoor Roth strategy, make the conversion from Traditional to Roth IRA by 12/31 in order to take any applicable tax in the current year. As a Commas client, your advisor will perform the Backdoor Roth Conversion for you on accounts that we manage!

- **Donate to Charity**

When? Before 12/31.

Donating to charity is an incredible way to support your community. It could also be a smart way to avoid capital gains taxes. Additionally, if you itemize your taxes instead of taking the standard deduction, charitable donations could enable you to deduct even more!

- **Line Up a Tax Specialist to File Your Taxes**

When? Before January.

We recommend working with a tax professional, such as a CPA or EA, for your tax preparation. Not only will working with a tax professional ensure your taxes are filed accurately and on time, but it will also save you time and reduce stress. If you're interested in working with a tax professional and want a referral, please reach out to your advisor.