The common and avoidable tax mistakes made by financial advisors and their clients.

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Many investment planners work hard to make sure their clients' portfolios are balanced and diversified. Investment planners try to make sure their clients' investments are suitable based on their needs and the economic environment. What is often overlooked is any form of tax planning. Paying taxes unnecessarily will reduce your income and investment returns. Good financial planning must consider all of the client's facts and circumstances. Taxation is an important consideration.

Here are the most common areas often overlooked by clients and their planners:

1) Keeping track of cost basis: In the past many clients may have transferred assets that they held in a different account without bringing the cost basis (purchase price and reinvestments) to the new account. Without this cost basis information clients might pay unnecessary taxes when they sell an asset.

   For example, you may have bought shares of XYZ Corporation years ago for $12 a share. The value of XYZ when you sell the shares is $20 a share. Thus you have an $8 taxable gain. If you do not have the cost basis information, then you may have to pay taxes on the sales price of $20 a share.

   Tax advice: Make sure that all assets not held in IRA's or retirement accounts (401-k, 403-b, etc) has cost basis information for each investment.

2) Sale of appreciated assets by widowed clients: Many clients and advisors do not realize that when a spouse dies appreciated securities receive a step up in basis to the current fair market value at the date of death. A married couple may have held an asset with a large unrealized gain. When a spouse dies the cost needs to be readjusted to the fair market value at death.

   In English that means that a stock has gone up in value since you bought it, but you haven't yet sold it. Your spouse dies and the IRS let's you take the cost at the date of death instead of the date of purchase. Without this cost basis adjustment the surviving spouse could pay taxes unnecessarily by using the lower cost from the purchase date instead of the higher cost on the date of death. If you and your spouse paid $20 a share, but it was worth $50 on the day of death, and you sold it after the death for $75. The correct gain is $75 - $50 = $25, not $75 - $20 = $55.

3) Realizing Capital Gains when rates are low: If there is a year when you have unusually low income, this might create an opportunity to sell assets tax free or at a lower capital gains rate. Just like income tax rates, capital gains rates increase as income rise.

__Planning Opportunity__ If you are married filing jointly and your taxable income is below $73,800, then you would pay no taxes on capital gains. If you are single, your taxable income must be below $36,900 to pay no capital gains.

4) When considering what asset to sell, clients should look closely at their tax effect before blindly making a decision.

   Many investment planners will sell holdings to adjust a portfolio without consideration of the tax burden faced by the client.

5) Consider short term vs. long-term gains: Holding assets over one year can give a client favorable tax treatment of the lower capital tax gains rates. Assets held less than one year are generally taxed at the higher ordinary income tax rates. For many portfolios tax advantages can be gained by considering how many days more can create a long-term capital gain.

6) Timing conversion of my IRA to a Roth IRA: Converting an IRA to Roth IRA can be very advantageous. All distributions from an IRA are subject to income taxation. While any distribution from a Roth IRA is tax free. In the year that you convert an IRA (or portion of IRA) to a Roth IRA, tax is due on the converted amount in that year. If you have a year with a lower income, this can create an opportunity for a Roth conversion because your tax bill could be much lower.

Good planning encompasses many consideration based on an individual's facts and circumstances.