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END-OF-THE-YEAR MONEY MOVES

Here are some things you might want to do before saying goodbye to 2011.

Provided by Frank DeMaio*

What has changed for you in 2011? Did you start a new job or leave a job behind? Did you retire? Did you start a family? If some notable changes occurred in your personal or professional life, then you will want to review your finances before this year ends and the next one begins.

Even if your 2011 has been comparatively uneventful, the end of the year is still a good time to get cracking and see where you can plan to save some taxes and/or build a little more wealth.

Do you practice tax loss harvesting? That is the art of taking capital losses (selling securities worth less than what you first paid for them) to offset your short-term capital gains. You might want to consider this move, which should be made with the guidance of a financial professional you trust.

In fact, you could even take it a step further. Consider that up to \$3,000 of capital losses in excess of capital gains can be deducted from ordinary income, and any remaining capital losses above that can be carried forward to offset capital gains in upcoming years. So you might think of triggering excess capital losses in 2010 and using the losses to shelter future long-term capital gains that could be taxed at a higher rate.¹

If you are in the 10% or 15% tax brackets, your capital gains tax rate is 0% for 2011 and 2012. If you fall into these tax brackets and sell assets you have held for at least a year, you won't pay any taxes on capital gains. For 2011, the 15% bracket tops out at taxable income of \$34,500 or less for individuals, \$69,000 or less for joint filers and qualifying widows/widowers, and \$46,250 for heads of households.^{2,3}

Do you itemize deductions? If you do, great. Now would be a good time to get the receipts and assorted paperwork together. Besides a possible mortgage interest deduction, you might be able to take a state sales tax deduction, a student-loan interest deduction, or deductions related to a job search, volunteering expenses, energy-efficient home upgrades, and medical expenses. There are so many deductions

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you can potentially claim, and now is the time to meet with your tax professional so that you can strategize to claim as many as you can.

Could you ramp up your 401(k) or 403(b) contributions? If you can do this in November and December, that will lower your taxable income. Do it enough and you might be able to qualify for other tax credits or breaks available to those under certain income limits.

Are you thinking of gifting? How about making a contribution to a charity or some other kind of 501(c)(3) non-profit organization before 2011 ends? In most cases, these gifts are partly tax-deductible. If you pour some money into a 529 plan on behalf of a child, you could get a deduction at the state level (depending on the state).⁴

Of course, you can also reduce the value of your taxable estate with a gift or two. The federal gift tax exclusion is \$13,000 for 2011 and 2012. You can gift up to \$13,000 to as many people as you wish this year, with the understanding that you have a \$5 million lifetime limit before you are actually hit with gift taxes. (Please note: that \$5 million lifetime limit is scheduled to reset back to the previous \$1 million ceiling in 2013, and that reset could happen sooner; there are rumors within the tax community that the Congressional “super committee” assigned to reduce the federal deficit may move to try and put the lifetime limit back to \$1 million before the end of the year.)^{5,6}

You still have time to make a charitable IRA gift, although it may seem less crucial with the lifetime gifting exemption at the current \$5 million. Taxpayers 70½ or older can arrange a direct transfer (a rollover) from their IRA trustee to a qualifying charity, non-profit foundation or non-profit organization. This tax-free donation of IRA proceeds can aid the charity and allow you to take credit for a qualified charitable distribution on your 2011 1040 form. Charitable IRA rollovers are slated to disappear in 2012 unless Congress acts to save them.⁷

Before 2011 ends, why not take a moment to review the beneficiary designations for your IRA, your life insurance policy, and your retirement plan at work? If you haven't reviewed them for a decade or more (which isn't uncommon), double-check to see that these assets will go where you want them to go should you pass away. Take a look at your will as well to see that it remains valid and current.

Should you go Roth? You know the argument here: converting a traditional IRA to a Roth could potentially bring you long-term tax savings, assuming taxes go higher in the future. Here's the big question: will the projected tax savings over your lifetime exceed the tax you will trigger from the conversion? No one has a crystal ball, but various possible tax outcomes should be reviewed before any move is made.

If you went Roth this year only to see the balance of that IRA diminish (some IRAs have), you could always recharacterize it back to a traditional IRA. Should the markets really take off next year, you could convert that recharacterized traditional IRA to a Roth again. As you have to wait 30 days after a recharacterization to do

another conversion, recharacterizing a Roth IRA back to a traditional IRA could be optimal before December rolls around.⁶

What can you do before they sing “Auld Lang Syne”? Talk with a financial or tax professional now rather than in February or March. Little year-end moves might help you improve your short-term and long-term financial situation.

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Citations

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