



## **2011 Year-End Planning Checklist**

R. Douglas Pauley, MBA, CFP<sup>®</sup>, AIF<sup>®</sup>

### **General:**

- Re-examine the adequacy and liquidity of your **emergency fund**. Remember, your emergency fund is the “buffer” which prevents you from carrying credit card debt. When expenses exceed income, you dip into the emergency fund to avoid carrying a balance on your credit cards. *Then*, focus your savings effort to replenish the emergency fund so it is there the next time you need it. If you have to dip into the emergency fund too often and aren’t replenishing it, it is a sure sign that your cash flow plan needs review.
- Plan **holiday spending** to keep in line with budgeted amount - travel, entertainment, gifts, etc. Consider “acts of kindness” and “gifts of time” instead of spending money on more “things.” Often, those gifts are more rewarding, meaningful, and cheaper!
- Update your **home inventory** (actually, best done after the holiday giving season). Be sure to include: item, cost/value, date and place purchased. File receipts with home inventory. It's also a good idea to photograph or video items so your insurance company has the best information available should you need to file a claim. Store photos, video tape and inventory away from home.
- If making year-end **gifts**, the annual exclusion amount that can be given by each individual to any number of individuals for 2011 is \$13,000/person. If a gift exceeds the annual exclusion amount, then you must file a gift tax return (IRS Form 709) even though you will not owe gift tax on the first \$5 million gifted. However, you do use up a portion of the unified credit which offsets estate tax at death.
- The **estate tax** returned in 2011 after a hiatus in 2010. However, the first \$5 million of an estate isn’t taxable (providing none of the unified credit has been used).
- Review your **credit report** for inaccuracies and accounts that should be closed but which remain open. All US citizens are eligible for a free credit report from each of the three reporting agencies annually – [www.annualcreditreport.com](http://www.annualcreditreport.com).
- Review your Comprehensive Loss Underwriting Exchange (C.L.U.E. <sup>®</sup>) reports. The C.L.U.E. Personal Property report provides a seven year history of losses associated with an individual’s personal property. The C.L.U.E. Auto loss report provides a seven year history of vehicle losses. Just as ensuring that your credit report is accurate, it is important to ensure these reports are as well as they may appreciably impact your insurance premiums; so, take advantage of the free reports annually – [https://personalreports.lexisnexis.com/fact\\_act\\_claims\\_bundle/landing.jsp](https://personalreports.lexisnexis.com/fact_act_claims_bundle/landing.jsp).

### **Investments:**

- **Non-retirement accounts**. Be cautious about making additional contributions to mutual funds before they distribute their capital gains and dividends near year-end. Check with the fund as to

when the distribution may be and how much it is anticipated to be. This will keep you from investing money and then having it returned to you as a taxable distribution in short order.

- **Required minimum distributions (RMDs).** If you are age 70 ½ and have an IRA (or, if you've inherited an IRA), you need to take your RMD before 12/31/11. Failure to make your RMD results in a **50% penalty** of the amount required to be distributed which was not !!!
- **Convert your Traditional IRA** to a Roth IRA? Again, this year, there is no income limit; so, everyone with a Traditional IRA is eligible. But, is it a good choice? The cost is that you'll have to pay the tax now on any pre-tax contributions (and growth) being converted. The benefit of converting is that you change an asset that would be taxed as ordinary income (high rate) when you take the proceeds out into an asset where the proceeds will come out *tax-free*. There are a number of factors which impact this decision. We're happy to help you sort through them.
- **IRA 2011:** Make 2011 contribution of \$5000 (\$6000 if age 50 or older) before April 15th, 2012.
  - Which IRA should I contribute to – Roth or Traditional?
  - Preference would be to make a Roth IRA contribution providing you're eligible - AGI < \$107k if single, < \$169k if married filing jointly.
  - If not eligible, then consider a Traditional IRA contribution.
  - Be sure that you are completing your **IRS Form 8606** (in conjunction with your tax return) each year that you make a **nondeductible contribution** so you can track your cost basis in your IRA – Roth or Traditional.
- Verify that your **IRA and retirement plan beneficiary designations** and **account titling** support your formal estate plan. Errors here can cause assets to flow in ways you didn't intend.
- **Coverdell Savings Account** (formerly known as the Education IRA ) – contribution of \$2000 can be made up until 4/15/12, providing your AGI is less than \$95k for singles, \$190k for MFJs. Don't forget to File IRS Form 5498-ESA along with your return. You can contribute to both a Coverdell Savings Account and a Section 529 plan in the same year, but be cautious of the annual gift limit.
- Have you set up an **automatic investment plan**? The best way to save is to create an "automatic" plan - just as you may already be doing with your 401(k). Have a specified amount pulled each month from your checking account and invested for you. This helps fulfill the "pay yourself first" principle rather than saving "what's left." I've found very few clients are capable of achieving their stated goals if they aren't saving at least 20% of their gross income.
- **Trusts.** If the trust tax year is the calendar year, consider paying trustee fees and any necessary distributions before year-end.

### Medical:

- If you've already met your **insurance deductible** for the year, schedule needed and/or elective medical work to be done before year-end to help delay the time until you have to pay your deductible next year.
- Use any funds remaining in this year's **Flexible Spending Account**. You now have the first quarter of next year to use this year's flex dollars with most plans.
- File **claims** for current year's Flexible Spending Account.
- Make an estimate for the amount to be withdrawn from your check for your employer's Flexible Spending Account for next year. Because of the extra quarter you now have to spend your flex-dollars (providing your employer's plan permits), you don't have to be as conservative in your

planning. Using pre-tax dollars to pay for these items is a huge benefit, be sure to take advantage of these opportunities for both medical and dependent care.

- Health Savings Accounts. If you are covered under a high deductible health insurance plan, you can contribute \$3050 for self-only coverage and \$6,150 for family coverage. The deductible minimum for self-only coverage is \$1,200 and \$2400 for family coverage. The out-of-pocket limits are \$5,950 for self-only and \$11,900 for family coverage.

**Taxes:**

- April 15<sup>th</sup> falls on a Saturday in 2012; so, you'll have until April 17<sup>th</sup> to file your return. Procrastinators rejoice!
- Consider a **year-end planning meeting** with your tax advisor and your financial advisor to make an estimate of your likely tax situation and be able to take advantage of any planning opportunities before year-end. This is also a good time to determine if an estimated tax payment is needed on January 15<sup>th</sup>; and, if so, how much.
- Update files to be ready for **tax return preparation** early next year.
- **Dependency exemption.** If you pay for more than half of the support for another, you may be able to claim them as a dependent. This includes parents or others. If you claim them, they cannot claim themselves on their return.
- Consider **bunching deductions** every other year (this works especially well if you don't have a mortgage payment and you're not paying Alternative Minimum Tax). Bunching enables you to maximize your deductions in one year and then get the "free" standard deduction the next. Over a two-year time period, this will reduce your taxes. Keep track of whether you are an odd- or even-year "buncher." Note: The standard deduction for 2011 for singles is \$5,800; for those filing as married, it is \$11,600; and, it is \$8500 for head of household filers.
- Try to maximize the allowable contribution to your employer's **retirement plan**. This reduces your reportable income, lowers your taxes, and adds to your savings! Minimally, contribute up to the amount that the employer matches – *this is free money!*
- If **taxable income** is nearing a higher **bracket**, consider deferring income, to the extent permissible, until succeeding year, e.g. bonus or self-employed payments.

Tax rate	Single filers	Married filing jointly or qualifying widow/widower	Married filing separately	Head of household
10%	Up to \$8,500	Up to \$17,000	Up to \$8,500	Up to \$12,150
15%	\$8,501 - \$34,500	\$17,001 - \$69,000	\$8,501 - \$34,500	\$12,151 - \$46,250
25%	\$34,501 - \$83,600	\$69,001 - \$139,350	\$34,501 - \$69,675	\$46,251 - \$119,400
28%	\$83,601 - \$174,400	\$139,351 - \$212,300	\$69,676 - \$106,150	\$119,401 - \$193,350
33%	\$174,401 - \$379,150	\$212,301 - \$379,150	\$106,151 - \$189,575	\$193,351 - \$379,150
35%	\$379,151 or more	\$379,151 or more	\$189,576 or more	\$379,151 or more

- Currently, long-term capital gains are generally taxed at a maximum rate of 15%. If you're in the 10% or 15% marginal income tax bracket in 2011, a special 0% rate applies (in other words, you owe no tax on any long-term capital gain). The same rates apply to qualified dividends received in 2011.
- If enough **income tax withholding** has not been made to meet your anticipated current year's tax liability (or to garner protection of the "safe harbor" provision), consider increasing the amount withheld from pay late in the year by adjusting W-4 with employer and/or making a larger estimated tax payment on January 1<sup>st</sup> to avoid unnecessary penalties and interest.
- If a change in **filing status** (as a result of marriage, divorce, death) is expected in the succeeding year, consider deferring current income and accelerating deductions if the change in status will lower tax rates. If higher rates are expected, reverse the strategy.
- If your **child** has **earned income** (as opposed to investment income), consider setting up a **Roth IRA** and/or **SEP-IRA** for them. They can fund it with their income or you can fund it for them up to the amount they grossed for the Roth and approximately 20% of their net income for the SEP-IRA.

#### Schedule A

- As previously discussed, consider **bunching deductions** in alternating years.
- If you've had an expensive medical year and are nearing the amount necessary to make your **medical expenses** deductible on Schedule A of your taxes (greater than 7.5% of your Adjusted Gross Income), consider buying medication and scheduling appointments for check-ups and/or elective procedures before the end of the year.
- Consider making year-end **charitable contributions** of personal property such as clothing and furniture. Be sure to make a good inventory and get a receipt for the donation. The charity won't assign an amount – you'll have to do that which is why you need a good inventory.
- Consider making a **charitable contribution** of appreciated securities. Using appreciated securities enables you to avoid paying capital gains tax on *long-term*, built-in capital gains *and* to get the charitable deduction – a *double* tax benefit! But, be wary of possible adverse alternative minimum tax consequences.
- Consider bunching **miscellaneous expenses**, including professional dues, tax preparation fees, investment advisory fees, job search costs, safety deposit box fee, and un-reimbursed employee business expenses, into the current year so that the total exceeds 2% of adjusted gross income (AGI). If the 2% threshold will not be exceeded even through bunching, consider postponing as many of these expenses as possible until next year when it might be easier to hit the 2% threshold.

#### Schedule C

- If there is any income from self-employment, consider setting up a **retirement plan** (such as a SEP-IRA – there are others) to sock away pre-tax dollars and lower your tax bill.

#### Schedule D

- Consider matching **gains and losses** in existing investments to reposition your portfolio tax-neutrally if you need to rebalance to meet your **target asset allocation**.
- Consider **tax loss harvesting** – you can use existing losses to offset capital gains plus up to \$3000 of capital losses to offset ordinary income. If you don't use all your losses this year, you can carry them forward for use in future years when you are harvesting gains. Believe it or not, a tax loss is an asset!
- Use **installment sales** method to defer capital gain recognition on real property, particularly if it is likely that you will be in a lower tax bracket in later years.

**Alternative Minimum Tax** - Determine AMT liability and shift itemized deductions that are treated as exclusion items for AMT purposes into years in which no AMT liability will be incurred. These include personal interest, state and local taxes, and most miscellaneous itemized deductions.