

## YOUR ANNUAL FINANCIAL TO-DO LIST

*Things you can do before and for the New Year.*

Presented by Renita M. Owens, CPA, PFS

**The end of the year is a good time to review your personal finances.** What are your financial, business or life priorities for 2011? Try to specify the goals you want to accomplish. Think about the consistent investing, saving or budgeting methods you could use to realize them. Also, consider these year-end moves.

**Think about adjusting or timing your income and tax deductions.** If you earn a lot of money and have the option of postponing a portion of the taxable income you will make in 2010 until 2011, this decision may bring you some tax savings. You might also consider accelerating payment of deductible expenses if you are close to the line on itemized deductions - another way to potentially save some bucks.

**Think about putting more in your 401(k) or 403(b).** You can contribute up to \$16,500 to these accounts in 2010, with a \$5,500 catch-up contribution also allowed if you are age 50 or older. Has your 2010 contribution approached the annual limit? There is still time to put more into your employer-sponsored retirement plan.<sup>1</sup>

**Can you max out your IRA contribution at the start of 2011?** If you can do it, do it early - the sooner you make your contribution, the more interest those assets will earn. And if you haven't made your 2010 IRA contribution yet, you can still do so through April 15, 2011.<sup>1</sup>

The 2011 contribution limits on traditional and Roth IRAs are unchanged from 2010. You can contribute \$5,000 to your IRA next year if you are age 49 and below, \$6,000 if you are age 50 and above.<sup>2</sup>

**Consider a Roth IRA conversion before 2010 ends.** Now anyone may convert a traditional IRA to a Roth IRA; there are no longer any income limits in the way. If you pull off a Roth conversion before 2010 ends, you can choose to divide the taxes on the conversion between your 2011 and 2012 federal returns. This nice opportunity won't be available if you make a Roth conversion in 2011.<sup>1</sup>

There are still MAGI phase-out limits for contributing to Roth IRAs. For 2010, those limits kick in at \$167,000 for joint filers and \$105,000 for single filers. If your MAGI will exceed those limits, you still have a chance to contribute to a traditional IRA in 2010 and immediately roll it over to a Roth.<sup>3</sup>

Consult a tax or financial professional before you make any IRA moves. You will want to see how it may affect your overall financial picture. The tax consequences of a Roth conversion can get sticky if you own multiple traditional IRAs.

**If you are retired and older than 70½, don't forget the 2010 RMD.** As your IRA custodian has undoubtedly reminded you, the one-year suspension of Required Minimum Distributions has been lifted. Retirees over age 70½ must take RMDs from traditional IRAs - and 401(k)s - by December 31. Remember that the IRS penalty for failing to take an RMD equals 50% of the RMD amount.<sup>1,4</sup>

If you have turned or will turn 70½ at some point in 2010, you can choose to postpone your first IRA RMD until April 1, 2011. The downside of that is that you have to take two IRA RMDs next year - you have to make your 2010 tax year withdrawal by April 1, and your 2011 tax year withdrawal by December 31.<sup>1</sup>

**Keep an eye on what happens with income, capital gains & estate taxes.** We're all watching and waiting here to see what Congress will do.

If Congress doesn't extend the current law, the tax rates on long-term capital gains will go from 0% to 10% next year for those in the 10% and 15% tax brackets. Taxpayers in higher brackets will see their capital gains tax rates rise 5% in 2011 to 20%. In addition, dividends are scheduled to be taxed at marginal income rates of 39.6%. As it stands now, time is running out to take advantage of the current capital gains tax break.<sup>5</sup>

Income taxes are poised to return to pre-EGTRRA levels in 2011, with the lowest bracket set at 15% and the highest bracket set at 39.6%. (The so-called "marriage penalty" would also come back.) No one in Congress wants this on their legacy, so some kind of extension of the Bush-era tax cuts will almost certainly be worked out. We will have to wait and see if Congress extends the cuts for all or simply for the middle class.<sup>6</sup>

Estate taxes will undoubtedly return in 2011. Hopefully, Congress will prevent them from returning at the 2001 levels (a puny \$1 million exemption and a 55% top tax rate).<sup>6</sup>

**You may wish to make a charitable gift before New Year's Day.** If you make a charitable contribution this year, you can claim the deduction on your 2010 return.

**You could make December the "13<sup>th</sup> month".** Can you make a January mortgage payment in December, or make a lump sum payment on your mortgage balance? If you have a fixed-rate mortgage, a lump sum payment can reduce the home loan amount and the total interest paid on the loan by that much more. In a sense, paying down a debt is almost like getting a risk-free return.

**Are you marrying next year, or do you know someone who is?** The top of 2011 is a good time to review (and possibly change) beneficiaries to your 401(k) or 403(b) account, your IRA, your insurance policy and other assets. You may want to change beneficiaries in your will. It is also wise to take a look at your insurance coverage. If

your last name is changing, you will need a new Social Security card. Lastly, assess your debts and the merits of your existing financial plans.

**Are you returning from active duty?** If so, go ahead and check the status of your credit, and the state of any tax and legal proceedings that might have been preempted by your orders. Review the status of your employee health insurance, and revoke any power of attorney you may have granted to another person.

**Don't delay - get it done.** Talk with a qualified financial or tax professional today, so you can focus on being healthy and wealthy in the New Year.

Renita M. Owens, CPA, PFS may be reached at (864) 233-4163 or [renita@cpawork4u.com](mailto:renita@cpawork4u.com)

[www.cpawork4u.com](http://www.cpawork4u.com)

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#### **Citations.**

- 1 [money.usnews.com/money/retirement/articles/2010/10/18/5-retirement-tax-deadlines-to-plan-for.html](http://money.usnews.com/money/retirement/articles/2010/10/18/5-retirement-tax-deadlines-to-plan-for.html) [10/18/10]
- 2 [irs.gov/retirement/article/0,,id=202510,00.html](http://irs.gov/retirement/article/0,,id=202510,00.html) [11/1/10]
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- 6 [ncpa.org/pub/2011-year-of-tax-man](http://ncpa.org/pub/2011-year-of-tax-man) [7/19/10]