Clarity WEALTH ADVISORS

Financial Planning Newsletter

December 2013 | Volume 3, Issue 12
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Year-End Financial Guide

Hello and Happy Holidays!

With the end of the year quickly approaching, we wanted to pass along a list of year-end financial items that we thought you would find informative. A condensed version of these strategies is also included in our 2013 Year-End Financial Checklist on the Additional Clarity page of our website under Clarity Guides.

Capital Gains/Losses

For those that have realized capital gains year-to-date in taxable accounts, it is advisable to review current holdings to see if there are securities with unrealized capital losses that can be sold to offset those gains. Any securities sold for a loss in a taxable account cannot be repurchased within 30 days so as to not violate the wash sale rule. For those with significant prior-year carry forward losses, consider realizing capital gains in taxable accounts as these amounts will be applied to those losses. Each year, individuals are able to show a net $3,000 loss on their federal tax return and amounts over this will be carried forward to the next tax year.

IRA Required Minimum Distributions (RMD)

For those individuals ages 70.5 or over in 2013, they will need to satisfy the RMD by the end of this year. The amount is determined using actuarial tables based on the prior year-end value of one's IRAs and the attained age in 2013. However, for those turning age 70.5 in 2013, they have until April 1, 2014 to withdraw their RMD but it is important to note you will then need to take out two distributions: one to satisfy the one for this year and one for next year. Consider instead taking the distribution this year to potentially avoid increasing your taxable income to a point where it would push you to the next tax bracket.

Also, under the new tax law, an individual can withdraw up to $100,000 of their RMD and send directly to a non-profit organization as a qualified charitable distribution (QCD). Those amounts given to charities will not be considered taxable income but therefore, cannot be claimed as a charitable contribution on one's tax return.

Retirement Plan Contributions

For those eligible to contribute to an employer-sponsored retirement plan such as 401(k), 403(b) and 457 plans, the maximum contribution for 2013 is $17,500. For those ages 50 and over, a catch-up contribution of $5,500 is allowed increasing the total to $23,000. Contributions to these plans must be made by the end of this year.

For individuals who are self-employed, an individual 401(k) or a defined benefit plan can be used to potentially contribute a higher amount in pre-tax dollars than a SEP IRA but both have to be set up by the end of this year yet do not have to be funded until the tax filing deadline plus extensions.

Traditional IRA Contributions

The maximum contribution for 2013 is $5,500 ($6,500 for those ages 50 and over) but eligibility requirements must be met including having earned income. Contributions may or may not be deductible depending on one's income and if they are eligible to participate in an employer-sponsored retirement plan. This year's contributions must be made by April 15, 2014. For single and head of household filers with earned income and covered by an employer-sponsored retirement plan, if their modified adjusted gross income (AGI) is under $59,000, they are eligible to contribute to a deductible IRA. If their modified AGI is between $59,000 and $69,000, they are able to contribute a reduced deductible amount, and those with a modified AGI of over $69,000 are not eligible to contribute on a deductible basis. For joint filers with earned income and covered by an employer-sponsored retirement plan, if their modified AGI is under $95,000, they are eligible to contribute to a deductible IRA. For modified AGIs between $95,000 and $115,000, they are able to contribute a reduced deductible amount, and those with a modified AGI of over $115,000 are not eligible to contribute on a deductible basis. In these cases, one can still make a full contribution to an IRA but it will be non-deductible.

Roth IRA Contributions

The maximum contribution for 2013 is $5,500 ($6,500 for those ages 50 and over) but eligibility requirements must be met. Contributions are not deductible and the deadline is April 15, 2014 to make 2013 contributions. For single and head of household filers, if they have earned income and their modified adjusted gross income (AGI) is under $112,000, they are eligible to contribute to a Roth IRA. For those with modified AGI between $112,000 and $127,000, they are able to contribute a reduced amount, and those with a modified AGI of over $127,000 are not eligible to contribute. For joint filers, as long as they have earned income and their modified AGI is under $178,000, they are eligible to contribute to a Roth IRA. If their modified AGI is between $178,000 and $188,000, they are able to contribute a reduced amount, and those with a modified AGI of over $188,000 are no longer eligible to contribute.

Roth IRA Conversions

Since 2010, there are no income limitations to be eligible to convert traditional IRAs and 401(k) plans to Roth IRAs and conversions must be made by December 31, 2013 to count for this year. Several factors must be taken into account before utilizing this strategy including one's other income, time horizon, tax bracket, etc. For those that have made both pre-tax and after-tax IRA contributions and do want to partake in a partial Roth IRA conversion, they cannot select which dollars they are converting to a Roth IRA. All the IRAs are included (based on one's Social Security number) and an exclusion ratio is determined as to which portion is not going to be considered as taxable income.

Flexible Spending Account (FSA)

For those contributing to an FSA in 2013, with most employers, employees have until March 15, 2014 to use this year's funds, but some employers still adhere to the old deadline of December 31st. Check with your employer to verify your FSA plan's deadline. Most employers limit the employee's contribution to $2,500 per year for health care FSA and $5,000 for dependent care FSA.

Health Savings Account (HSA)

For those than have an HSA-compatible high deductible health plan (HDHP), they are eligible to contribute to a health savings account (HSAA) in which contributions are funded with pre-tax dollars, earnings grow tax-deferred, and distributions are tax free as long as they are used for qualified health care expenses.

For 2013, the maximum contribution is $3,250 for individuals and $6,450 for family coverage. For those over age 55, a catch-up contribution is allowed of an additional $1,000. The deadline to make contributions for 2013 is April 15, 2014. For this year, an HDHP must have a deductible of at least $1,250 for individual coverage and $2,500 for family coverage.

Mortgage Interest

For those individuals who anticipate their income to be significantly higher this year than next year, consider making the mortgage payment due in January 2014 in late December so as to have the interest counted as a deduction for this year assuming itemized deductions are being used versus the standard deduction on the federal tax return.

Property Taxes

For those that anticipate their income being higher this year than next year, consider making the second installment of the property taxes (typically due in April which includes the grace period) in late December so as to have the payment counted as a deduction for this year assuming itemized deductions are claimed on the federal tax return.

Charitable Contributions

Contributions made to non-profit organizations must be mailed by December 31, 2013 in order to receive the deduction for this year. These include cash, securities, household items, clothing, etc. If possible, gift highly appreciated securities (as long as they have been held for one year) instead of cash as it is a great way to divest out of a security without having to pay capital gains taxes. Charitable organizations can sell the security with no tax liability given their non-profit status and the donor receives the fair market value at the time of the transfer as the donation amount.

Annual Gift Exclusion

Each person is allowed to give up to $14,000 in assets (cash, securities, etc.) to another individual without it being subject to the federal gift tax. The gift must be made by December 31, 2013. There is one account – 529 plans – which allow participants to give a five-year advance gift to a beneficiary ($70,000 for those that are single and $140,000 for couples) and these plans are specifically used to set aside funds for post-secondary educational expenses. Accounts are funded with after-tax dollars, earnings grow tax-deferred, and distributions are tax free as long as the withdrawals are used for qualified expenses.

We hope you found this topic interesting and feel free to contact us with any questions. As always, please pass along this newsletter to others you feel would benefit from this information.