Clarity WEALTH ADVISORS
Financial Planning Newsletter
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Year-End Planning

Hello!

With the holiday season and 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 listed below is also included in a checklist on the "Additional Clarity" page of our website.

Capital Gains/Losses

For those that have realized capital gains year-to-date in taxable accounts, review current holdings to see if you have securities with unrealized losses that you can sell to offset against those gains. Any securities you sell for a loss in a taxable account cannot be repurchased within 30 days so as to not violate the wash sale rule.

If you have prior-year carry forward losses, consider realizing capital gains in taxable accounts as these amounts will be applied to those losses. Each year, you are able to show a net $3,000 loss on your federal tax return and amounts over this will be carried forward to the next tax year.

IRA Required Minimum Distributions (RMD)

If you are age 70.5 and over in 2011, you will need to satisfy your RMD by the end of this year. The amount is determined using actuarial tables based on the prior year-end value of your IRAs and the attained age in 2011.

If you turn age 70.5 in 2011, you have until April 1, 2011 to withdraw your RMD. However, you will then need to take out two distributions: one to satisfy the one for this year and one for next year. Consider instead to taking the distribution for 2011 this year to potentially avoid increasing your taxable income.

Under the new tax law, you can transfer some or all (up to $100,000) of your IRA RMD directly to charitable organizations. Those amounts given to charities will not be considered taxable income.

Retirement Plan Contributions

If you are employed and eligible to contribute to your employer-sponsored retirement plan such as a 401(k), 403(b) and 457 plans, the maximum contribution for 2011 is $16,500. For those ages 50 and over, a catch-up contribution of $5,500 is allowed increasing the total to $22,000. Contributions to these plans must be made by the end of this year.

For those individuals that 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 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 2011 is $5,000 ($6,000 for those ages 50 and over) but eligibility requirements must be met. Contributions may or may not be deductible. You have until the tax filing deadline (April 16, 2012) to make 2011 contributions.

For single and head of household filers, if you have earned income, are covered by an employer-sponsored retirement plan, and your modified adjusted gross income (AGI) is under $56,000, you are eligible to contribute to a deductible IRA. If your modified AGI is between $56,000 and $66,000, you are able to contribute a reduced deductible amount, and those with a modified AGI of over $66,000 are not eligible to contribute on a deductible basis. You can still make a full contribution to an IRA but it will be non-deductible.

For joint filers, if you have earned income, are covered by an employer-sponsored retirement plan, and your modified AGI is under $90,000, you are eligible to contribute to a deductible IRA. If your modified AGI is between $90,000 and $110,000, you are able to contribute a reduced deductible amount, and those with a modified AGI of over $110,000 are not eligible to contribute on a deductible basis. You can still make a full contribution to an IRA but it will be non-deductible.

Roth IRA Contributions

The maximum contribution for 2011 is $5,000 ($6,000 for those ages 50 and over) but eligibility requirements must be met. Contributions are not deductible and you have until the tax filing deadline (April 16, 2012) to make 2011 contributions.

For single and head of household filers, if you have earned income and your modified adjusted gross income (AGI) is under $107,000, you are eligible to contribute to a Roth IRA. If your modified AGI is between $107,000 and $122,000, you are able to contribute a reduced amount, and those with a modified AGI of over $122,000 are not eligible to contribute.

For joint filers, if you have earned income and your modified AGI is under $169,000, you are eligible to contribute to a Roth IRA. If your modified AGI is between $169,000 and $179,000, you are able to contribute a reduced amount, and those with a modified AGI of over $179,000 are not eligible to contribute.

Roth IRA Conversions

Since last year, there are now no income limitations to be eligible to convert traditional IRAs and 401(k) plans to Roth IRAs and you have until the end of this year to do the conversion. Several factors must be taken into account before utilizing this strategy.

Those that have deductible and non-deductible traditional IRAs cannot select which dollars they are converting to a Roth IRA. All the IRAs are included (based on participant's Social Security number) and if a partial conversion is done, an exclusion ratio is determined as to which portion is not going to be considered as taxable income.

Flexible Spending Account (FSA)

If you are contributing to an FSA in 2011, with most employers, you have until March 15, 2012 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 $5,000 per year.

Beginning this year, over-the-counter (OTC) medication will no longer be eligible for reimbursement unless you are expressly directed by your doctor to use them.

Health Savings Account (HSA)

If you have an HSA-compatible high deductible health plan (HDHP), you are eligible to contribute to an HSA. For 2011, the maximum contribution is $3,050 for individuals and $6,150 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 2011 is April 16, 2012.

For 2011, an HDHP must have a deductible of at least $1,200 for individual coverage and $2,400 for family coverage.

Mortgage Interest

If you anticipate your income being higher this year than next year, consider making the payment due in January 2012 in late December so as to have the interest counted as a deduction for this year assuming you use itemized deductions versus the standard deduction on your federal tax return.

Property Taxes

If you anticipate your income being higher this year than next year, consider making the second installment of your property taxes (typically due in February 2012) in late December so as to have the payment counted as a deduction for this year assuming you use itemized deductions versus the standard deduction on your federal tax return.

Charitable Contributions

Contributions made to non-profit organizations must be mailed by December 31, 2011 in order to receive the deduction for this year. These include cash, securities, household items, clothing, etc.

Annual Gift Exclusion

Each person is allowed to give up to $13,000 in assets (cash, securities, etc.) to another individual without paying federal gift tax. The gift must be made by December 31, 2011.

There is one account – 529 plans – which allow participants to give a five-year advance gift to a beneficiary ($65,000 for those that are single and $130,000 for couples) and to not be subject to a gift tax liability. These plans are specifically

used to set aside funds for post-secondary educational expenses. Accounts are funded with after-tax dollars, grow tax-deferred, and can be accessed on a tax-free basis as long as the withdrawals are used for qualified expenses.

Estate Planning

An individual may gift up to $5 million during his or her lifetime without being subject to gift taxes. For gifts greater than this amount, the tax rate is 35% maximum.

For those that passed away this year, their estates are entitled to $5 million exclusion and are eligible to receive a step-up in basis for certain assets. For those estates over $5 million, they will be taxed at a maximum rate of 35%.