Year-End Tax-Planning Checklist

November 2013

The federal tax law enacted earlier this year, coupled with the 2010 Affordable Care Act, will mean higher taxes for many upper-income Americans in 2013:

- ☐ The top federal income-tax rate rises this year from 35% to 39.6% for single individuals with taxable incomes above $400,000 and married couples filing jointly with incomes above $450,000. These taxpayers will also see their long-term capital gains rate climb from 15% to 20%.

- ☐ Itemized deductions and personal exemptions are curtailed for single individuals with adjusted gross incomes above $250,000 and married couples above $300,000.

- ☐ A 3.8% Medicare tax now applies to the net investment income of single individuals with modified adjusted gross incomes above $200,000 and married couples above $250,000. This tax can also apply to earnings above these levels, though a portion may be paid by your employer.

What financial steps should you take between now and year-end, especially if you're among those facing higher taxes? Below are some ideas you might discuss with your tax and financial professionals:

- ☐ **Estimated taxes.** If you are among those affected by this year's tax increases, check whether you need to pay federal estimated taxes before the January 15, 2014 deadline for fourth-quarter estimated tax payments.

- ☐ **Deferring income.** Deferring income to 2014 may be a good tax strategy because you can postpone the resulting tax bill for another year. At the same time, if you can come up with more itemized deductions for this year, such as pre-paying property taxes and making charitable contributions, you may be able to lower your tax liability for 2013.

- ☐ **Realizing losses.** The new law raises the maximum federal tax rate on long-term capital gains to as much as 23.8%, thanks to a combination of the 20% capital-gains rate and the 3.8% Medicare tax. That means you might consider selling losing investments before year-end to offset this year's realized capital gains. If you have more capital losses than gains, the net loss can be used to offset up to $3,000 in ordinary income.

- ☐ **Rebalancing.** Even as you sell losing investments, you should probably make sure you maintain your portfolio's target mix of stocks and more conservative investments. Talk to your Financial Advisor about how to rebalance your portfolio appropriately, so your investment mix remains in line with your goals, time horizon and risk tolerance.

- ☐ **Dividends.** Under the new tax law, qualified stock dividends continue to be taxed at the long-term capital gains rate. That means dividends will typically be taxed less onerously than interest from, say, taxable bonds and certificates of deposit. While you may pay somewhat more tax on your qualified dividends, thanks to the higher capital-gains rate and Medicare tax, there's still an incentive to hold dividend-paying stocks in your taxable accounts while keeping taxable bonds and CDs in your retirement accounts.

- ☐ **Gifting.** The federal estate tax exemption is $5.25 million this year. But estate taxes at the state level can kick in at much lower asset levels, so regular gifting can still make sense for those looking to shrink the size of their taxable estate. In 2013, you can make separate gifts of up to $14,000 ($28,000 as a couple) to as many people as you want without worrying about the gift tax.

- ☐ **Business retirement plans.** If you're enrolled in an employer-sponsored 401(k) or 403(b) plan and you aren't on track to contribute the maximum, consider increasing your contribution rate so you hit the max by year-end. If you're under age 50, the 2013 limit is $17,500, while those 50 or older can contribute $23,000. Meanwhile, if you own a small business or you're self-employed, you may be able to contribute as much as 25% of annual compensation to a SEP IRA, up to $51,000. The deadline for 2013 SEP IRA contributions is April 15, 2014.

- ☐ **Individual Retirement Accounts.** Look to fund a Roth or traditional IRA by the April 15, 2014, tax-filing deadline. For 2013, you can contribute up to $5,500 to an IRA, unless you are age 50 or older, in which case the maximum contribution is $6,500. A Roth IRA can potentially give you tax-free growth, while a traditional IRA can potentially give you tax-deferred growth and also a tax deduction.

- ☐ **Roth conversions.** Talk to your Financial Advisor about whether to convert your traditional Individual Retirement Account to a Roth IRA. Keep in mind that, because of the tax increases affecting upper-income Americans, a large conversion could trigger a surprisingly hefty tax bill.

- ☐ **Required minimum distributions.** If you're age 70½ or older, be sure to take your 2013 required minimum distribution from your traditional IRA and other affected accounts. If you reached that age this year, you must make your first minimum withdrawal by April 1, 2014. Under the new tax law, taxpayers age 70½ and older can once again make direct tax-free contributions to charity from their IRA of up to $100,000 and count it toward 2013's minimum distribution.

- ☐ **Flexible Spending Accounts.** If you have a special account for qualified medical expenses through your employer, be sure to use any remaining money before the deadline set by your employer. Need new eyeglasses? Maybe it's time to shop around.

- ☐ **Simplifying your finances.** If your finances seem unwieldy, consider consolidating accounts before year-end. You might focus on closing out those accounts where you have tax losses. This account consolidation may create some messy accounting for the 2013 tax year. But it should make things easier for 2014 and beyond.

- ☐ **Getting organized.** Create files for both the 2013 and 2014 tax years. Use these files to keep tabs on charitable contributions, extra income, estimated tax payments and other items that will make it easier to file your tax return.

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