Year-End Financial Planning
By Gary Case

Even though it's barely November, it's not too early to begin thinking of year-end tax and financial planning. Many major mutual fund companies have served notice that distributions from capital gain and income either this month or next will be larger than in the recent past. Moreover, many funds which have not paid distributions since 2000 have used up the losses carried forward from the last bear market and will pay out this year. While it is unwise to make investment decisions solely on the basis of taxes, it might be wise to consider the consequence if investing a chunk of money into a non-retirement account prior to year-end distributions. The problem lies in the investor receiving a return of invested principal in the form of a taxable dividend! If you are concerned about being out of the market between now and year end, you might want to consider an Exchange Traded or tax efficient mutual fund which is not scheduled to make a year-end distribution.

Other potential income tax reducing strategies include:

- Timing a marriage—moving the date up to December could provide an income tax advantage
- Review your non-retirement portfolio for positions which show a loss. $3,000 of long-term capital losses can offset ordinary income and provide a dollar-for-dollar offset against long-term capital gains
- Shifting income into a low income year or from a high income year can help level taxes paid
- Pay state income tax and real estate taxes prior to year end
- Fund tax deductible retirement accounts (traditional IRAs, SEPs, SIMPLE IRAs, etc.) or spend money for things that provide income tax credits
- Give money, stocks, or tangible items to your favorite charity—but be sure it is eligible to provide an income tax deduction (a "qualified" charity)
- Business owners may expense capital purchases through a section 179 deduction of up to $160,000 (please verify this with your tax advisor

Many tax advisors and financial planners offer a year-end tax review as part of their client service model. If you have had an unusually high or low income year, or if you have experienced a windfall or financial catastrophe, it probably makes even more sense to seek assistance from a professional.

One final note; if you are considering whether to apply for social security retirement benefits, you should consider the impact of required distributions from retirement plans or employment on the taxability of you social security retirement benefits.

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