



## YOUR ANNUAL FINANCIAL TO-DO LIST

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

**The end of the year is a good time to review your personal finances.** What are your financial, business or life priorities for 2012? 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 2011 until 2012, this decision can 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).** The IRS hasn't announced the contribution limit for 2012 yet. Given the moderate inflation of late, we might see the annual limit rise to \$17,000 from the present \$16,500, or not. In 2011, you can contribute up to \$16,500 per year to these accounts with a \$5,500 catch-up contribution also allowed if you are age 50 or older. Has your 2011 contribution reached 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 2012?** If you can do it, do it early - the sooner you make your contribution, the more interest those assets will earn. (If you haven't yet made your 2011 IRA contribution, you can still do so through April 17, 2012.)<sup>1</sup>

We don't yet know if the 2012 contribution limits on traditional and Roth IRAs will rise from 2011 levels. If the IRS leaves limits where they are now, you will be able to contribute up to \$5,000 to your IRA next year if you are age 49 or younger, and up to \$6,000 if you are age 50 and older.<sup>2</sup>

**Should you go Roth between now and the end of 2012?** While you can no longer divide the income from a Roth IRA conversion across two years of federal tax returns, converting a traditional IRA into a Roth before 2013 may make sense for another reason: federal taxes might be higher in 2013. Congress extended the Bush-era tax cuts through the end of 2012; their sunset may not be delayed any further.<sup>3</sup>

Some MAGI phase-out limits affect Roth IRA contributions. If the phase-out limits aren't adjusted north for 2012, phase-outs will kick in at \$169,000 for joint filers and \$107,000 for single filers. Should your MAGI exceed those limits, you still have a chance to contribute to a traditional IRA in 2012 and then roll those IRA assets over into a Roth.<sup>4</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 an RMD.** Retirees over age 70½ must take Required Minimum Distributions from traditional IRAs and 401(k)s by December 31, 2012. Remember that the IRS penalty for failing to take an RMD equals 50% of the RMD amount.<sup>5</sup>

If you have turned or will turn 70½ in 2011, you can postpone your first IRA RMD until April 1, 2012. The downside of that is that you will have to take two IRA RMDs next year, both taxable events - you will have to make your 2011 tax year withdrawal by April 1, 2012 and your 2012 tax year withdrawal by December 31, 2012.<sup>5</sup>

Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule - if your modified AGI plus 50% of your Social Security benefits surpasses a certain level, then a portion of your Social Security benefits become taxable. For tax year 2011, Social Security benefits start to be taxed at provisional income levels of \$32,000 for joint filers and \$25,000 for single filers.<sup>6</sup>

**Consider the tax impact of any 2011 transactions.** Did you sell any real property this year - or do you plan to before the year ends? Did you start a business? Are you thinking about exercising a stock option? Could any large commissions or bonuses come your way before the end of the year? Did you sell an investment that was held outside of a tax-deferred account? Any of these moves might have a big impact on your taxes.

**You may wish to make a charitable gift before New Year's Day.** Make a charitable contribution this year and you can claim the deduction on your 2011 return.

**You could make December the "13th 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 2012 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.

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#### **Citations.**

1 [irs.gov/newsroom/article/0,,id=229975,00.html](http://irs.gov/newsroom/article/0,,id=229975,00.html) [10/28/10]

2 [us.etrade.com/e/t/plan/retirement/static?gxml=ira\\_amt\\_deadlines.html&skinname=none](http://us.etrade.com/e/t/plan/retirement/static?gxml=ira_amt_deadlines.html&skinname=none) [9/15/11]

3 [post-gazette.com/pg/11032/1121982-28.stm](http://post-gazette.com/pg/11032/1121982-28.stm) [2/1/11]

4 [irs.gov/retirement/participant/article/0,,id=202518,00.html](http://irs.gov/retirement/participant/article/0,,id=202518,00.html) [11/1/10]

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6 [dentbaker.com/LinkClick.aspx?fileticket=5gZQwSHvjwQ%3d&tabid=36](http://dentbaker.com/LinkClick.aspx?fileticket=5gZQwSHvjwQ%3d&tabid=36) [9/6/11]

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