Financial Considerations for 2014

What changes should we consider making for next year?

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2014 is really not too far away. Fall is the time of year when the financially savvy start to look for ways to reduce their taxes and make year-end moves in pursuit of key financial objectives.

What might the big picture hold? Absent a crystal ball, let's turn to the September edition of the *Wall Street Journal*'s Economic Forecasting Survey. The *WSJ* asks 52 economists for their take on things each month, and here is how they see 2014 shaping up for America: GDP of 2.8%, a jobless rate declining from the present 7.3% to 6.6% by the end of next year and consumer inflation of 2.5% or less through the end of 2015. These analysts also see the Federal Reserve keeping the benchmark interest rate at 0-0.25% for all of 2014. As for the yield on the 10-year note, their consensus projection has it hitting 3.28% in June 2014 and 3.57% in December 2014. They also see home prices rising 5.22% YOY in 2014 after a 7.85% gain across 2013. Oil, they think, will average $102.73 a barrel on the NYMEX this December, declining to $98.17 a barrel next December. For its part, the International Monetary Fund projects 3.8% inflation-adjusted global growth next year, and a 4.3% tumble for global non-fuel commodities in U.S. dollar terms. These are all macro forecasts worth keeping in mind.[1,2]

Now, how about your picture? Beyond these macro forecasts that may affect your business and personal finances, what moves might you consider?

Can you max out your IRA or workplace retirement plan contribution? If you have, congratulations (especially if you benefit further from an employer match). If you haven't, you still have the chance to put up to $5,500 into a traditional or Roth IRA for tax year 2013, $6,500 if you are 50 or older this year, assuming your income levels allow you to do so. (Or you can spread that maximum contribution across more than one IRA.) Traditional IRA contributions are tax-deductible to varying degree. The contribution limit for participants in 401(k), 403(b) and most 457 plans and the Thrift Savings Plan is $17,500 for 2013, with a $5,500 catch-up contribution allowed for those 50 and older.[3,4]

Incidentally, the FY 2014 federal budget set out by the White House proposes some changes to IRAs & 401(k)-style plans in 2014. First, if an individual's total tax-deferred retirement savings through these plans is great enough to produce yearly retirement income of $205,000 for the individual and his/her surviving spouse, then further contributions to such accounts would be nixed. (Today, it would take savings of nearly $3.5 million to produce such a retirement income stream.) Second, the Stretch IRA strategy would basically vanish: the FY 2014 budget proposes that all IRA inheritors follow the 5-year rule, in which an inherited IRA balance is reduced to zero by the end of the fifth year after the year in which the original IRA owner dies. (Disabled IRA inheritors and certain other beneficiaries would be exempt from the 5-year rule.)[5]

Should you go Roth in 2014? The younger you are, the more sense a Roth IRA conversion may make. If you have a long time horizon to let your IRA grow, have the funds to pay the tax on the conversion, and want your heirs to inherit tax-free distributions from your IRA, it may be worth it. If you think you will pay less tax in the future or you might die with a large charitable bequest, then it may not be a wise move.

Can you harvest portfolio losses before 2014? This is the time of year to think about tax loss harvesting – dumping the losers in your portfolio. You can claim losses equivalent to any capital gains recognized in a tax year, and you can claim up to $3,000 in additional losses beyond that, which can offset dividend, interest and wage income. If your losses exceed that limit, they can be carried over into future years. It is a good idea to do this before December, as that will give you the necessary 30 days to repurchase any shares should you wish.[6]

In terms of taxes, should you delay a big financial move until 2014? Talk with a tax professional about the impact that selling or buying a home or business might have on your 2013 taxes. You may want to wait. Receiving a bonus, getting married or divorced, exercising a stock option, taking a lump-sum payout – these events have potentially major tax consequences as well. Business owners may want to consider whether to make a capital purchase or not.

Look at tax efficiency in your portfolio. Investors were strongly cautioned to do this at the end of 2012 as the fiscal cliff loomed; it is a good idea before any year ebbs into the next. You may want to put income-producing investments inside an IRA, for example, and direct investments with lesser tax implications into brokerage accounts.

Finally, do you need to change your withholding status? If major change has come to your personal or financial life, it might be time. If you have married or divorced, if a family member has passed away, if you are self-employed now or have landed a much higher-salaried job, or if you either pay a lot of tax or get unusually large IRS or state refunds, you will want to review this with your tax preparer.

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Citations.

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