Your Annual Financial To-Do List

Things you can do before & for 2014.

Provided by *Benedict A. Mitchell Jr.*

What financial, business or life priorities do you need to address for 2014? Now is a good time to think about the investing, saving or budgeting methods you could employ toward specific objectives. Some year-end financial moves may prove crucial to the pursuit of those goals as well.

What can you do to lower your 2013 taxes? Before the year fades away, you have plenty of options. Here are a few that may prove convenient:

***Make a charitable gift before New Year's Day.** You can claim the deduction on your 2013 return, provided you use Schedule A. The paper trail is important here.

If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity in December but only end up gifting $500 before 2013 ends, you can only deduct $500.[1]

Are you gifting appreciated securities? If you have owned them for more than a year, you will be in line to take a deduction for 100% of their fair market value and avoid capital gains tax that would have resulted from simply selling the stock, fund or bond and then donating those proceeds. (Of course, if your investment is a loser, then it might be better to sell it and donate the money so you can claim a loss on the sale and deduct a charitable contribution equivalent to the proceeds.)[2]

Does the value of your gift exceed $250? It may, and if you gift that amount or larger to a qualified charitable organization, you will need a receipt or a detailed verification form from the charity. You also have to file Form 8283 when your total deduction for non-cash contributions or property in a year exceeds $500.[1]

If you aren't sure if an organization is eligible to receive charitable gifts, check it out at irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

***Contribute more to your retirement plan.** If you haven't turned 70½ and you participate in a traditional (i.e., non-Roth) qualified retirement plan or have a traditional IRA, you can reduce your 2013 taxable income by the amount of your contribution. If you are self-employed and don't have a solo 401(k) or something similar, consider establishing and funding a plan before the end of the year. Also, keep in mind that your 2013 tax year contribution to an IRA or solo 401(k) may be made as late as April 15, 2014 (or October 15, 2014 if you file Form 4868). For

2013, you can contribute up to $17,500 in a 401(k), 403(b) or profit-sharing plan, with a $5,500 catch-up contribution also allowed if you are age 50 or older.[3,4]

***Make a capital purchase.** If you buy assets for your business that have a useful life of more than one year - a truck, a computer, furniture, a rototiller, whatever – those purchases are commonly characterized as capital expenses. For 2013, the Section 179 deduction can be as much as $500,000 (although it is ultimately limited to your net taxable business income). First-year bonus depreciation is set at 50% for most purchases of new equipment and software in 2013. It is uncertain if 2014 deductions will be as generous.[3]

***Open an HSA.** If you work for yourself or have a very small business, you may pay for your own health coverage. If you set up and fund a Health Savings Account in 2013, you can make fully deductible HSA contributions of up to $3,250 (singles) or $6,450 (married couples). Catch-up contributions of up to $1,000 are allowed for those 50 or older.[3]

***Practice tax loss harvesting.** You could sell underperforming stocks in your portfolio – enough to rack up at least $3,000 in capital losses. If it ends up that your total capital losses top all of your capital gains this year, you can deduct up to $3,000 of capital losses from this year's taxable income. If you have over $3,000 in capital losses, the excess rolls over into 2014.[2,3]

Are there other major moves that you should consider? Here are some additional ideas with merit.

***Pay attention to asset location.** Tax-efficient asset location can be an ignored fundamental of investing. Broadly speaking, consider placing your least tax-efficient securities in pre-tax accounts and your most tax-efficient securities should be held in taxable accounts.

***Can you contribute the maximum to your IRA on January 1?** The rationale behind this is that the sooner you make your contribution, the more interest those assets will earn. If you haven't made your 2013 IRA contribution, you still have until April 15, 2014 to do that.[3]

In 2013 you can contribute up to $5,500 to a Roth or traditional IRA if you are age 49 or younger, and up to $6,500 if you are age 50 and older (though your MAGI may affect how much you can put into a Roth IRA).[5]

What are the income limits on tax deductions for traditional IRA contributions? If you participate in a workplace retirement plan, the 2013 MAGI phase-out ranges are $59,000-69,000 for singles and heads of households, $95,000-115,000 for married couples filing jointly when the spouse making IRA contributions is covered by a workplace retirement plan, and $178,000-188,000 for an IRA contributor who is not covered by a workplace retirement plan but is married to someone who is.[4,5]

***Should you go Roth before 2014 gets here?** If you are a high earner, remember that the planned 3.8% Medicare surtax affecting single/joint filers with AGIs over $200,000/$250,000 will not apply to qualified payouts from Roth accounts.[6]

MAGI phase-out limits affect Roth IRA contributions. For 2013, phase-outs kick in at $178,000 for joint filers and $112,000 for single filers. Should your MAGI prevent you from contributing to a Roth IRA at all, you still have a chance to contribute to a traditional IRA in 2013 and then roll those assets over into a Roth.[4,6]

Consult a tax or financial professional before you make any IRA moves to see how it may affect your overall financial picture. If you have a large traditional IRA, the projected tax resulting from the conversion may make you think twice.

What else should you consider as 2013 turns into 2014? There are some other important things to note...

***Review your withholding status.** Should it be adjusted due to any of the following factors?

>> You tend to pay a great deal of income tax each year.
>> You tend to get a big federal tax refund each year.
>> You recently married or divorced.
>> A family member recently passed away.
>> You have a new job at a much greater salary.
>> You started a business venture or became self-employed.

***If you are retired and older than 70½, remember your RMD.** Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs, and Roth 401(k)s and all employer-sponsored retirement plans by December 31. The IRS penalty for failing to take an RMD equals 50% of the RMD amount.[7]

Your first RMD will be different, though. If you have turned or will turn 70½ in 2013, you can postpone your first IRA RMD until April 1, 2014. 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 2013 tax year withdrawal by April 1, 2014 and your 2014 tax year withdrawal by December 31, 2014.[7]

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 2013, Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers.[8]

***Consider the tax impact of any 2013 transactions.** Did you sell real property this year – or do you plan to before 2013 ends? Did you start a business? Are you thinking about exercising a stock option? Could any large commissions or bonuses come your way before January? Did you sell an investment held outside of a tax-deferred account? Any of this might significantly affect your 2013 taxes.

***Would it be worth making a 13th mortgage payment this year?** If your house is underwater, there's no sense in doing it – and you could also argue that the dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January mortgage payment in December. If you have a fixed-rate loan, a lump sum payment can reduce the principal and the total interest paid on it by that much more.

***Are you marrying in 2014?** If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2014, you will need a new Social Security card. Additionally, you and your spouse no doubt have individually particular retirement saving and investment strategies. Will they need to be revised or adjusted with marriage?

***Are you coming home 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. Make sure your employee health insurance is still there, and revoke any power of attorney you may have granted to another person.

Talk with a qualified financial or tax professional today. Vow to focus on being healthy and wealthy in the New Year.

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