YOUR ANNUAL FINANCIAL TO-DO LIST

Things you can do before and for the New Year.

Presented by Craig S. Darnell, CFP®

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). 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.[1]

The IRS has announced 2012 contribution limits for 401(k) and 403(b) accounts, most 457 plans and the federal government's Thrift Savings Plan (TSP). The annual contribution limit for each of these retirement plans will be $17,000 next year; the catch-up contribution again maxes out at $5,500.[1]

On a related note, SIMPLE IRA contribution limits won't change next year. Up to $11,500 can be contributed to a SIMPLE IRA in 2012, $14,000 if you are 50 or older.[2]

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 sooner those assets can begin earning potential gains. If you haven't yet made your 2011 IRA contribution, you can still do so through Monday, April 16, 2012.

The IRS has decided that IRA contribution limits won't increase next year. In 2012 you will be able to contribute up to $5,000 to a Roth or traditional IRA if you are age 49 or younger, and up to $6,000 if you are age 50 and older (though your Modified Adjusted Gross Income "MAGI" may affect how much you can put into a Roth IRA).[3]

The IRS has also boosted the income limits for a tax deduction for traditional IRA contributions. If you participate in a workplace retirement plan in 2012, the MAGI phase-out ranges will be $58,000-68,000 for singles and heads of households and $92,000-112,000 for couples. (In 2011, those phase-out ranges are set $2,000 lower.) If you own an IRA, you aren't covered by a workplace retirement plan and you are married and filing jointly, the 2012 phase-out range is $173,000-183,000 based on a couple's combined MAGI, hiked by $4,000 from 2011.[3]

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; that sunset may not be delayed any further.[4]

Some MAGI phase-out limits affect Roth IRA contributions. These phase-out limits have been adjusted north for 2012. Next year, phase-outs will kick in at $173,000 for joint filers and $110,000 for single filers. (The 2011 phase-outs respectively kick in at $169,000 and $107,000.) 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 2012 and then roll those IRA assets over into a Roth.[3,5]

Consult a tax professional before you make any IRA moves. You will want 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.[6]

If you have turned or will turn 70½ in 2011, you can postpone your first RMD until April 1, 2012. The downside of that is that you will have to take two 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.[6]

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.[7]

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.

Has your family structure experienced a change recently? 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 also want to update beneficiaries in your will and trust.

Lastly, have you reviewed your withholding status? It may be time for a withholding adjustment if…

- You tend to pay a great deal of income tax annually.
- You tend to get a big refund each year from the IRS.
- You recently married or divorced.
- A family member recently passed away.
- You have a new job that pays you much more than your old one.
- You opened up your own business or started freelancing.

Don't delay – get it done. Call and schedule an appointment to come in, so you can focus on being healthy and wealthy in the New Year.

Sincerely,

Craig S. Darnell, CFP®

Citations.
1 www.irs.gov/newsroom/article/0,,id=248482,00.html [10/20/11]
2 www.irs.gov/retirement/participant/article/0,,id=211345,00.html [10/20/11]
3 money.usnews.com/money/blogs/planning-to-retire/2011/10/21/401k-and-ira-changes-coming-in-2012 [10/21/11]
4 www.post-gazette.com/pg/11032/1121982-28.stm [2/1/11]
5 www.irs.gov/retirement/participant/article/0,,id=202518,00.html [11/1/10]
6 www.montoyaregistry.com/Financial-Market.aspx?financial-market=required-ira-distributions&category=1 [9/15/11]
7 www.dentbaker.com/LinkClick.aspx?fileticket=5gZQwSHvjwQ%3d&tabid=36 [9/6/11]