

GROWING WEALTH™

Your Year-end Financial Review

Finances aren't exactly festive, but the holiday season is a great time to reflect on your past, as well as the year ahead. Moves you make now can pay off on your 2007 taxes and put you on firm financial footing for 2008.

Ideally, you'd begin to strategize on next year's taxes — and take action where you hadn't already — when the leaves begin to change. But truth be told, there's plenty you can do between now and New Year's Eve.

To make your taxes less taxing, consult your financial advisor before he or she gets totally swamped, and come up with a game plan. Here's a look at several moves that could make a difference come tax time.

Maneuver mutual funds skillfully

Avoid buying mutual funds in your taxable accounts during the last few weeks of the year. Most mutual funds pay out nearly all capital gains and dividends to their shareholders during that time. "You don't want to become a shareholder on Monday and receive the taxable income for the year on Tuesday," says Michael Rubin, author, *Beyond Paycheck to Paycheck*.

While the receipt of such income has no significant impact on the value of your investment, it can impact your taxes. "Wait until after the year ends. Or call the fund to find out when the distribution date will occur, and purchase the fund after that date."

You'll also want sell off losing investments, and soften the blow by getting a tax deduction. "Any investment loss, without limit, can offset investment gains," says Bill DeShurko, author of *The Naked Truth about Your Money*. "So by simultaneously selling long-term winners and losers, you can wipe out tax gains from the winners.

"If you don't have investment gains, you can still take a \$3,000 loss against ordinary income. If your losses are larger, they can be carried forward into a new tax year indefinitely until used up," he says.

Capitalize on energy

Look into a natural gas drilling program. Qualified investors can diversify their portfolios with this move into the energy sector. Plus, the short-term impact is quite attractive. “This investment allows substantial first-year deductions against all income, while 85 percent of future distributions are taxable,” says Gregory Anderson, certified financial planner and CEO of GRAnderson Wealth Management Group in Denver.

Also on the energy front, see if you qualify for tax benefits for installing equipment like solar panels or energy-efficient windows. Check with your local utility company for more information about what may qualify you for a tax break.

And if you’re thinking of buying a hybrid vehicle, now’s the time. Not only could you get a great deal this time of year, but according to Jody D’Agostini, a certified financial planner with AXA Advisors in Morristown, NJ, you may also get a tax incentive between \$250 — \$2,600.

Invest the maximum in retirement funds

Make sure you have maxed out your retirement plan contributions. If you’re under age 50, you can save \$15,500 — and \$5,000 more if you’re over age 50 — in a 401(k) or 403(b).

Review other tax-related accounts as well, such as your Flexible Spending Account. Apply for reimbursement for costs already incurred, and plan to fully utilize the account. “If your plan has a ‘use it or lose it’ feature, you could lose part of the benefit by failing to incur the expense and seek reimbursement within the plan provisions,” says Kristi Mathisen, managing director of tax and financial planning at Seattle-based wealth management firm Laird Norton Tyee.

Donate, donate, donate

You have until the end of the year to make a charitable donation — you can donate all sorts of items, including clothes, artwork, or stocks.

And donating appreciated stocks “may help you avoid income tax on the built-in gain in the stock, while at the same time maximizing your charitable deduction,” says Dennis Barba, author of *The Scarcest Commodity*.

You can also donate money using a credit card. As long as you charge the donation by Dec. 31, it doesn’t matter that you’ll pay the bill next year. Make sure to get and save your receipts from the recipient charity.

Don’t get bit by AMT

Since the Alternative Minimum Tax (AMT) is not indexed to inflation, it threatens to include more middle-class taxpayers. Plus, it’s expected to increase significantly in 2007, says Tom Fee, principal, Vector Wealth Management, an independent investment advisory firm in Minneapolis.

If you find yourself in the AMT this year, start planning now for 2008 taxes. “There are some opportunities you can consider that would either increase ordinary income or reduce AMT income so that your regular tax liability is slightly above the AMT liability,” says Fee, who cautions to always consult your tax advisor.

It’s not all about taxes

Besides tax-saving strategies, there are plenty of other financial checks you should make before the end of the year.

“Review all legal and estate planning documents, such as wills, trusts, and powers of attorney,” says Thomas Froehlich, a registered investment advisor with Froehlich Financial Group in Spring Lake Heights, NJ. “Make sure they address the goals that are important to you today and change them if needed. Pay special attention to beneficiary changes, as tax laws change often.”

You should also review your life insurance, disability, and homeowners’ policies to determine whether your coverage is adequate. While you’re at it, scrutinize all investments to make sure they are on track to achieve your financial goals; you may need to rebalance your portfolio.

And take an honest look at your spending. Determine whether you can cut costs in 2008 and, if so, how you can put those dollars toward your retirement and other savings vehicles. If you’ve been timely in paying your credit card debt, ask your lender to lower your interest rate, says Barry Rabinowitz, staff planner, Keats, Connelly & Associates in West Palm Beach, Fla.

Just do something

The biggest mistake you can make is simply to do nothing. Party and procrastinate and pay the price. “Thinking about finances is not at the top of people’s lists any time, especially during the end of the year,” says Rubin.

But those who take the time to address their finances at year’s end will reap the rewards.

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