

A Checklist That Could Save You Thousands

Written by Rob Copeland

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The end of the year is a busy time for all of us because of the holidays. But making time to organize your finances can potentially save you thousands of dollars, along with countless headaches, in the years ahead.

Here's a quick checklist of some of the most vital matters to take care of before January 1.

- **Estimate your 2014 tax liability.** Knowing how much you're likely to owe ahead of time will let you prepare to pay it in a way that is least disruptive to your finances. In a worst-case scenario, you could be forced to liquidate a big chunk of your investment portfolio to pay a larger-than-expected tax bill. There are several good online calculators available (here's

[one](#)

and here's

[another](#)

) to help you determine what you'll owe based on factors like your income, deductions and payments. Once you know about how much you'll owe, you'll also know how much more you need to save or put aside before you have to file.

- **Schedule IRA distributions.** Toward the end of each year, I get requests by retirees for large, lump-sum withdraws from retirement accounts for major purchases like cars, home additions, vacations, etc. These IRA withdrawals count as 1099-R income. Reviewing tax status and current IRS income brackets allows investors to make "smart withdraws" from their IRA. So by splitting this distribution, one in December and one in January, the client can save major tax dollars by not jumping into a higher bracket. If you are contemplating a major purchase with your IRA, you might want to discuss the timing of it with your investment/tax advisor before making the final call.

- **Sell your losers.** With your advisor's help, review your taxable investment accounts for tax-loss harvesting opportunities. Tax-loss harvesting involves selling investments that are down for the year, and using the realized losses to neutralize tax liabilities from winning investments or ordinary income. Tax-loss harvesting can save some investors thousands of dollars in taxes. You need to be sure, however, to understand and observe the IRS's "wash sale" rule. It bars you from selling a security for a loss and then buying it or a similar investment back within 30 days.

- **Review your healthcare spending.** If you have met all the deductibles under your insurance plan, then consider scheduling any surgery you might need to take place before the end of year. If you have a Flexible Spending Account through your employer, be sure to spend it down before the end of the year, because balances do not roll over into the coming year.

- **Get donations acknowledged.** Tax write-offs for donations may be disallowed if you don't have proper proof. Make sure you receive written acknowledgement of any gift you've given, especially if the value of the gift is at least \$250. You must receive your document by the date you file your return, or by the deadline for the return, including extensions. Your deadline is

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whichever date is earlier.

- **Consider gifting.** The IRS allows individuals to give away up to \$14,000 in 2014 without paying the dreaded 50% gift tax. The premise behind this is to lower your estate value and potentially avoid state and federal estate taxes all together. Recently, the federal estate tax exemption rose to \$5.34 million (for couples, those exemption amounts are doubled). This raise means that fewer middle-class families will be affected by this "death tax," thus eliminating the need to gift. Note that after 2014, the \$14,000 exclusion and the \$5.34-million estate tax exemption may be increased for inflation. Also factor in to your decision-making the fact that my home state, the State of Tennessee, will abolish its inheritance tax starting in 2016. But another point to consider is that when you give appreciated securities to your adult children who are in a lower tax bracket than you, they could qualify for a 0% rate on long-term gains. In this scenario, an individual could give an adult child \$14,000 of stock, and the recipient could sell immediately without owing tax; if you sold it, on the other hand, you would likely have to pay thousands of dollars in taxes.

- **Review your investments.** The end of the year is a good time to schedule a review of your investment strategies and saving patterns. Sit down with your investment advisor to make sure your portfolio is in line with your risk tolerance, time horizon, and investment objectives. And make sure that you are putting enough into your 401(k) or other retirement-savings vehicles to ensure that you'll be able to retire comfortably. Often, savers fail to increase contributions to their retirement savings despite the fact that their incomes have risen over the years.

Please [contact us](#) if you'd like to discuss any of the items on this checklist. With the end of the year coming up fast, the important thing is to move quickly. In the meantime, the team at Copeland Wealth Management wishes you and your loved ones a joyful holiday season.