

End of year time to check finances

By Don Mecoy Business Writer - November 28, 2004

'Tis the season for spending, but it's also time to consider ways to save.

The end of the year is an opportune time to look at investment portfolios, tax liabilities, cash gifts and deductible expenses.

With that in mind, here are a few tips from investment advisers that could make next year's holiday season a wealthier one:

- If you've got the cash, consider paying some deductible expenses ahead of time. Brian Puckett, owner of Brian Puckett Retirement Advisors in Oklahoma City, recommends pre-paying your property tax or your January mortgage. If you have run up significant medical expenses, you also could pay those before the year ends.
- Defer bonuses or other earned income into early 2005. That puts off income taxes for an extra year, and could lower your tax bracket.
- Watch out for mutual fund year-end distributions. Most mutual funds are just now starting to make capital gain distributions. Investors considering selling a fund, might want to do so before they're hit with the capital gains. More importantly, if they're thinking of buying a mutual fund, they may want to wait until after it makes its distribution.

For investors who buy just before a fund distributes its capital gains, "you paid somebody else's tax," Puckett said. "I can't tell you how many folks I've heard scream about that one."

- Don't outsmart yourself when considering year-end tax treatments of investments.

"Year-end tax planning is smart, but the goal of any investor is not to pay the least amount of tax; it's to make money and pay the least amount of tax," Puckett said. "Don't let the tax tail wag the investment dog."

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Be mindful of the "washsale" rule that says you forfeit the tax-loss benefit of any investment sale if you repurchase a "substantially identical" investment within 30 days of the initial sale.

- But having said that, this is the time to assess gains and losses and act accordingly. Investors who want to sell some winning stocks from their portfolio should make sure they've owned them for at least a year to take advantage of the tax breaks offered on long-term capital gains, said Tom Phillips, president of T.S. Phillips Investment Inc. in Oklahoma City.

"The difference in taxation is significant," Phillips said. "The long-term capital gains rate is only 15 percent now. If you sell a day before one year, it's taxed at your ordinary tax rate."

It's also a good time to harvest some investment losses to offset gains. Puckett said many investors don't realize that those losses also can be used to shelter up to \$3,000 in ordinary income.

- Those invested in Individual Retirement Accounts who turned 70 1 / 2 years old this year must take a distribution from those accounts. By law, distributions can be delayed until April 1. However, that would throw two IRA distributions into a single tax year and could have undesired consequences such as making Social Security payments taxable or boosting your tax bracket.

Those who fail to take a required IRA distribution will owe a 50 percent penalty for the amount they should have taken in addition to the income tax due.

- Check on your college savings plan. Parents who invest in college savings account plans called 529s can rebalance their investments once a year. Contributions to the Oklahoma College Savings Plan and the resulting income and withdrawals used for qualified expenses are free from federal and state income tax. For more information, go to www.ok4saving.org.
- For business owners, a federal tax break for the purchase of commercial vehicles weighing 6,000 pounds or more (essentially massive sport-utility

vehicles) expires Dec. 31. If a company needs a really big SUV, there's no better time to buy one, experts say.

Although the holidays is a hectic time of year with shopping, parties and travel, it would be wise to evaluate personal finances or consult with a tax or financial adviser.

"It's been my experience that people know their investments are important," Phillips said. "But they don't spend nearly enough time looking over them. Most people are so busy with their day-to-day stuff, they just don't devote as much time to making decisions regarding their investments as they should."

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