

Ask the Advisor



Do I have to take a distribution from my IRA this year? - Sally in Penacook

No you do not have to take a Required Minimum Distribution (RMD) from your retirement plan for 2009. If you can afford to skip the RMD, leave the funds to grow tax-deferred for another year.

I am making the maximum contribution to my retirement plan. What else can I do? - Rene in Manchester

You are on the right track maxing out your tax-deductible retirement plan. Tax-deductible retirement plans, such as a Traditional IRA, 401(k), 403(b), SEP IRA, Simple IRA, 457 or Thrift plan can be great ways to reduce your taxes and save for retirement.

A Roth IRA, Roth 401(k) or Roth 403(b) won't reduce your taxes now, but you'll reap the tax benefit later in the form of tax-free withdrawals.

The government grants few tax breaks as beneficial as tax-advantaged retirement plans, so be sure to take advantage of this valuable break.

Other Strategies

- If you are retired and drawing a taxable distribution from your retirement plan and the distribution can be delayed without hardship until January, do so and delay the tax payment due on the distribution for an entire year. You are, of course, only delaying the payment, not avoiding it.
- If you are eligible for social security and not yet drawing, but contemplating doing so, be sure to calculate the tax ramifications with your tax professional. If you are still working and/or if you have other income sources, a large portion of your social security benefit may end up taxed.
- Next year, 2010, the income phase-out, currently \$100,000 Adjusted Gross Income (AGI), for converting a Traditional IRA and certain other retirement plans to a Roth IRA will go away. The conversion amount will be taxable to the extent of pre-tax contributions and growth but if your contributions are down you may reap the loss as an indirect tax savings. Not only that but the tax burden can be spread over two years.
- Coordinate capital gains and losses for the best tax benefit. Beware of the wash sale rule if you plan to sell a stock for a loss and then buy the stock back.

You must wait 31 days before repurchasing the stock so you don't run afoul of the wash sale rule.

- Place tax efficient holdings such as municipal bonds, and stocks or exchange traded funds that you plan to buy and hold, in taxable accounts.
- Place tax inefficient holdings such as high turnover mutual funds, heavily traded stocks and taxable interest bonds in tax-advantaged accounts.
- The cost basis on gifted assets carries over to the recipient. Gift appreciated assets to lower tax bracketed family members taking advantage of the annual gift exclusion and lower the overall family tax burden.
- Donate appreciated assets to a qualified charity and avoid the tax on any gain while at the same time getting a tax deduction for the donation.
- Sell non-appreciated assets now for current income needs while leaving highly appreciated assets to heirs who can benefit from a step-up in cost basis.
- Watch out for end-of-year mutual fund tax distributions. Mutual funds are required to pay out dividend and interest income earned during the year and generally do so in November or December. You could potentially purchase a fund just before the distribution and end up owing tax on dividend and interest income earned throughout the year.
- Make an extra mortgage payment to increase your deductible interest. However, don't confuse an extra mortgage payment with an extra payment made to principal only. The extra mortgage payment may reduce your tax bill, but, other than the payment itself, it does little to reduce the total of all interest and principal that is paid on the loan. A principal only payment doesn't help with your taxes, but it can substantially reduce the total interest that you will have to pay. If making a principal only payment, be sure to designate the payment as such with the bank.
- Watch out for the alternative minimum tax. This special tax calculation was originally designed to target high-income households, but not being indexed for inflation, it captures more and more taxpayers every year.
- Last but not least, consult with your tax professional now, not in April. Many tax strategies must be implemented before December 31, 2009.

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