

YEAR-END FINANCIAL MOVES TO THINK ABOUT

Before 2009 ends, some things you might want to consider.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

Fall is the time to consider some year-end financial moves - little and not-so-little things you might do to plan to improve your financial position.

You could put more in your 401(k) before they play "Auld Lang Syne". As you only get one chance to save for retirement and an annual deadline to make retirement plan contributions, you could increase your final retirement plan deferrals of 2009 to the maximum allowed by your plan, assuming your finances permit you to do so. Contributions to traditional IRAs and 401(k)s are usually made with pre-tax dollars and thereby could help you reduce your tax bill.¹

If you haven't contributed to your IRA or Roth IRA for 2009, you have until April 15, 2010 to make that move. You can contribute up to \$5,000 to an IRA (or spread up to \$5,000 of contributions across multiple IRAs) for tax year 2009; those over age 50 may contribute up to \$6,000 to their IRAs for 2009.² If your modified adjusted gross income (MAGI) is into six figures, this may reduce or even prohibit Roth IRA contributions depending on your filing status.

You could try to harvest some losses. You might want to sell some losers to offset some winners (not every security was a winner this year) and counterbalance capital gains. Keep in mind that if you are in the 10% or 15% federal income tax bracket for 2009, you won't have to pay capital gains tax - that break extends into the 2010 tax year as well. If you want to sell, sell carefully - you don't want to generate so much income that you creep into a higher tax bracket.³

You could try to pick up some tax credits. Are you thinking about buying a home? The up-to-\$8,000 first-time homebuyer credit has been extended to the end of April and complemented by its new variant, the up-to-\$6,500 credit for move-up buyers. Remember, the phase-out limits on that credit just rose - they are now \$125,000 for single filers, and \$225,000 for joint filers. The home has to have a price tag of \$800,000 or less and it must be your primary residence. A first-time homebuyer is defined as someone who hasn't owned a home within the past three years; a move-up buyer is defined as a buyer who has lived in the same primary residence for a stretch of five consecutive years or longer.⁴

How about some energy credits? If you make your principal residence more energy-efficient or purchase solar hot water heaters, geothermal heat pumps, wind turbines or other qualifying alternative energy equipment to heat or cool your home, you can qualify for a tax credit for up to 30% of the cost of the improvements. There is a maximum tax credit limit to \$1,500 for improvements put in service in 2009.⁵

Do you have sons or daughters in college? The Hope Credit has become the American Opportunity Tax Credit, a credit of up to \$2,500 toward qualifying college expenses. Phase-outs kick in at \$80,000 MAGI for single filers, \$160,000 MAGI for joint filers.⁶ Additionally, you could contribute a little more to a 529 plan before the year ends.

Prepay some deductible expenses. If you are pretty sure you will be in the same tax bracket or a lower one in 2010, think about making a thirteenth payment on your home loan in 2009 to boost your mortgage interest deduction, or prepaying your property taxes if your financial situation lets you do so.

Spend that FSA money. Do you have a Flexible Savings Account for your healthcare expenses? Think about getting some new glasses or braces, or find some way to use that money - money you might lose after December 31, unless your employer allows you the extended-access option to your 2009 FSA funds (in which case you'll still have to use them by March 15 of next year).⁷

Sit down with your financial advisor for a portfolio review. See how (well) you've done this year. Think about next year, and what you might do as the economic recovery progresses. Discuss some of the different aspects of your financial situation. If you want a better understanding of where you are at financially, this is the chance to gain it.

Timothy C. Hucks, CEP, is a Certified Estate Planner, Registered Investment Advisor and President of Rising Tide, Inc. He may be reached at www.risingtideinc.com, 919-968-8675, or tim@risingtideinc.com. Securities offered through [Capital Investment Group, Inc.](#) Corporate Office: 17 Glenwood Avenue, Raleigh, NC 27603 • 919.831.2370. Member [FINRA/SIPC](#).

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Citations.

¹ foxbusiness.com/story/personal-finance/retirement-advice-ages/ [12/26/08]

² irs.gov/retirement/article/0,,id=202510,00.html [11/10/09]

³ usatoday.com/money/perfi/taxes/2007-06-15-mym-capital-gains_N.htm [6/15/07]

⁴ money.cnn.com/2009/11/05/news/economy/Extending_unemployment_benefits/index.htm?postversion=2009110612 [11/5/09]

⁵ irs.gov/newsroom/article/0,,id=206875,00.html [11/13/09]

⁶ irs.gov/newsroom/article/0,,id=205674,00.html [11/6/09]

⁷ bankrate.com/finance/money-guides/use-fsa-money-so-you-don-t-lose-it-1.aspx [2008]