



Debbie Oswald

Your Practice

Five financial strategies to wrap up 2006

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The end of the year is the ideal time to take stock of your finances and make last-minute adjustments to maximize your tax savings for the year. Here are some strategies to help ensure you have a happy New Year.

1. Review your portfolio

- Rebalance. With a strong market this year, you may need to realign your target allocations. Reduce your exposure to the winners in your portfolio and put your money to work in less expensive asset categories.
- Net out the tax effect. Capitalize on your success by offsetting your capital gains with capital losses. Identify any losses on paper and use those losses to offset some of your portfolio's gains. This will minimize the tax impact while realigning your portfolio. Check Schedule D of your 2005 tax return to see if you have any unused losses from prior years that can be used to offset this year's realized gains.
- Be aware of year-end fund distributions. If you plan to buy and/or sell mutual funds in the fourth quarter, take note of year-end capital gains distributions. A large unexpected distribution can impact your tax planning for the year. If you are planning to buy a fund, wait until after its ex-dividend date. Conversely, if you are planning to sell a fund, con-

sider doing so just before the record date. Information regarding fund distributions is generally available on the fund's Web site.

2. Earmark money for your retirement savings

- Contribute the maximum amount allowable to your company retirement plan. If you have a 401(k) plan, a 403(b) plan, or a 457 plan through work, you can contribute \$15,000 in 2006 (unless "top heavy" rules apply). If you are age 50 or over, you can put away an additional \$5000 through the catch-up provision.
- Make IRA contributions. Contributing to an individual retirement account (IRA) is more attractive than ever. You may contribute up to \$4000 in 2006 (\$5000 if you are age 50 or over). Anyone with earned income (or an income earner's spouse) can make a nondeductible traditional IRA contribution. Legislation passed in 2006 allows anyone, regardless of income level, to convert a traditional IRA to a Roth IRA in 2010 and beyond.

Why convert to a Roth IRA? You pay no tax on distributions if you've held the account for 5 years and are over age 59½. And you'll never have to take minimum distributions. You do have to pay taxes sooner rather than later on your earnings to participate in these benefits.

3. Evaluate your education savings plan

Whether you save through a 529 Savings Plan, a Coverdell Education Savings account, or a Uniform Gift/Transfer to Minor account, make sure

that you have made a reasonable annual contribution to these accounts. In 2006, contributions to Edvest accounts are tax deductible on your Wisconsin return for up to \$3000 per beneficiary.

4. Plan year-end giving

Without triggering gift tax, you can give \$12,000 to an unlimited number of persons (a couple can give up to \$24,000). You can give an unlimited amount to charitable organizations. The gift may be in cash or even appreciated stock.

Determining the appropriate gift depends on your goals. Remember, the cost basis of the stock carries over to the person receiving the asset. In the case of a charitable organization, the gift of appreciated stock makes sense. The donor gifts the full value of the stock and the charitable organization does not have to pay taxes on the sale of the stock.

When gifting to an individual, appreciated stock may be advantageous if the recipient is in a lower tax bracket than the donor. However, if you wish to give the individual the spending power of the full \$12,000, then consider a gift of cash.

If you're over age 70½, consider making a gift to a charitable organization directly from your IRA to avoid taxable income.

5. Run a year-end tax projection

Ask your accountant to run a year-end tax projection, taking into account recent changes in the tax law. Those who have to pay the Alternative Minimum Tax (AMT), exercise stock options, or have income from multiple sources will benefit most from this year-end projection.

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Wisconsin Medical Journal

The mission of the *Wisconsin Medical Journal* is to provide a vehicle for professional communication and continuing education of Wisconsin physicians.

The *Wisconsin Medical Journal* (ISSN 1098-1861) is the official publication of the Wisconsin Medical Society and is devoted to the interests of the medical profession and health care in Wisconsin. The managing editor is responsible for overseeing the production, business operation and contents of the *Wisconsin Medical Journal*. The editorial board, chaired by the medical editor, solicits and peer reviews all scientific articles; it does not screen public health, socioeconomic or organizational articles. Although letters to the editor are reviewed by the medical editor, all signed expressions of opinion belong to the author(s) for which neither the *Wisconsin Medical Journal* nor the Society take responsibility. The *Wisconsin Medical Journal* is indexed in Index Medicus, Hospital Literature Index and Cambridge Scientific Abstracts.

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