

Year-End Personal Finance Checklist

To be sure, you have time to get your financial act together before 2006 ends. But not much time. Here's a recap of what Sue Stevens, director of financial planning at Morningstar, and other financial planners suggest doing:

Fix your portfolio. Year-end is the perfect time to rebalance your portfolio. At a minimum, investors and their financial planners should revisit (or create if they don't have one) their Portfolio Asset Allocation percentage goals or targets to see if you need to make any changes to the asset allocation. This process is designed to take the emotion out of investing and keep the investor on track, regardless of what the market or the economy is doing. In some cases, rebalancing will be required because the percent invested in certain assets exceeds the limits established in the investment portfolio spreadsheet. In other cases, circumstances may have changed, requiring changes in the percent invested in asset classes.

When rebalancing, it's a good idea to review whether you can sell some securities at a loss and others with a gain to reduce potential taxes. In addition, it's a good time to check whether you have any losses from prior years that can be carried over to this year.

Because many mutual funds are expected to declare capital gains this year, find out if any of the investments you own now expect to distribute these gains. It's also important to examine whether the mutual fund or funds you plan to buy or sell in the last part of the year have had any year-end capital gains distributions. Usually, people try to avoid these payouts because they can complicate a tax return and result in unwanted and needless taxes.

Catch up if you can. Those who have an employer-sponsored 401(k), 403(b) or 457 retirement plan, should contribute as much as possible to their plan. The maximum is a total contribution of \$15,000 in 2006 and \$20,000 for persons who will be at age 50 or older by December 31, 2006. In some cases, employees can adjust their payroll deduction before year-end to reach that amount. In other cases, they may have to use a portion of their bonus.

Besides socking money away in an employer-sponsored retirement plan, taxpayers should also consider – if eligible and possible - contributing to an IRA or Roth IRA. This can be a bit complicated. If you have earned income, you are always eligible to contribute to an IRA—which may or may not be tax deductible -- but income restrictions may rule out Roth IRAs. You contribute up to \$4,000 in 2006 or \$5,000 if you're over age 50 in 2006. Of note, you can do this up to next April 15.

For those who are self-employed, consider setting up a 401(k) or profit-sharing plan before year-end, or a SEP-IRA, or for potentially even larger tax deductions a defined benefit plan.

Plan that estate. People tend to procrastinate when it comes to getting their estate planning documents in order. Consider these a priority before the year ends: Name guardians for your children and trustees for your assets. Make sure you have named someone who could make health care decisions for you if you are unable to do so. Of course, if you already have estate documents, review them with a qualified professional who will know about recent changes in the law that might affect your plans.

Put money away for your children's education. Be it a 529 Savings Plan, a Coverdell Education Savings Account, a Uniform Gift/Transfer to Minors account, or something entirely different, start socking money away for your children's future. The new tax law change causes kids under 18 (previously 14) to be taxed at parents rate so this could be a good time to consider switching to a 529 plan from an UGMA.

Charitable giving. You can give \$12,000 each to as many people as you'd like this year without triggering gift tax. But that gift doesn't have to be cash. In fact, lots of people who have appreciated stocks in their portfolio give those instead.

Take those RMDs. If you're over age 70 1/2, you probably have to take at least the minimum distribution required by Uncle Sam from your qualified retirement plan (unless you're still working for that company) or traditional IRA. Don't wait. You'll owe 50 percent of the amount you should have taken plus ordinary income tax if you miss the year-end deadline.

Do a Year-End Tax Projection. Most people hate tax surprises. If you do tax projections throughout the year, that could help reduce the odds of surprises next April. It's especially important for those who have to pay AMT (alternative minimum tax), exercise stock options, or have income from multiple sources.

Consider a Roth IRA Conversion. If you meet the criteria, if you have AGI (adjusted gross income) under \$100,000 and you have a traditional IRA, you may want to think about converting to a Roth IRA. You can convert all or part of the traditional IRA. Of course, you will have to pay ordinary income tax on the portion of the traditional IRA that you convert.

November 2006— This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by local member Bill Rodau, MS, MBA, CFP® at *Creative Financial Services*, 262-780-0870, www.imfeeonly.com. The column is provided for your general information only and you should contact this planner or other professionals for specific advice regarding your unique situation.