



**Five for the Money** December 13, 2006, 8:04PM EST

# Still Time for '06 Tax Savings

Here are some yearend strategies investors can use to help trim their bill from Uncle Sam

by [Marc Hogan](#)

With December almost half over, it's probably too late to make good on those old New Year's resolutions you haven't quite gotten around to. Those trips to the gym may just have to wait until next year, just like your unwritten novel. But here's some good news: Investors may find there's still plenty of time to help trim their 2006 tax bill.

A few smart moves now can save money when the tax collector calls in April (see BusinessWeek.com, 12/9/06, ["Yearend Tax Tips"](#)). "The biggest mistake that clients make with yearend planning is not doing any," says Allentown (Pa.) financial planner Kevin Brosious. "Often they wait too long and try to cram everything in the final weeks of December, and there just isn't enough time."

Still, investors shouldn't fret so much about avoiding the tax man that they end up making costly miscues. "I see this more often than people not making proper tax moves at yearend," cautions Andrew Tignanelli, president of Lutherville (Md.) financial planning firm the Financial Consulate.

This *Five for the Money* looks at some sensible late-year strategies for easing the Apr. 15 burden. It may be the season for caroling, but it's not too early for investors to start humming the Beatles' *Taxman*.

## **1. Sock Away for Retirement**

Contributing to a 401(k) or individual retirement account isn't just a wise decision for your golden years. A savvy retirement savings program can also help reduce investors' tax bills in the current year. If you have the cash, putting as much as you can into your retirement plan will lower your taxable income.

The 401(k) contribution limit for 2006 is \$15,000, and workers 50 and older can stow away another \$5,000. For IRAs, the maximum is \$4,000, or \$5,000 for the over-50 crowd. The deadline for 401(k) contributions is Dec. 31, but investors can keep funding their IRAs until April.

Naperville (Ill.) financial planner Robert Gerstemeier says he suggests his clients defer as much as they can into their 401(k)s before the yearend deadline. "Some people may take a cash-flow hit in the short

term, but in a few months when they complete their 2006 taxes they will be glad they did this," Gerstemeier explains.

Small-business owners who haven't yet set up a workplace retirement plan may wish to do so (see BusinessWeek.com, 11/27/06, "[Saving on 2006 Taxes](#)"). Steven Podnos, principal at Merritt Island (Fla.) financial-planning firm Principal Wealth Care, says solo 401(k)s for sole proprietors and their spouses have helped his clients shelter big chunks of their income.

## **2. Give to a Good Cause**

Investors caught up in the spirit of holiday giving might want to direct some of their largesse to charity. Of course, philanthropy doesn't have to be purely altruistic. Donations of several kinds can ease the tax bite come April.

Investors can donate highly appreciated stocks to a church or favorite charity. "This results in the [charity] receiving the full value of the shares, as they don't pay taxes on any gains," says Timothy Brown, a financial adviser with Woodbury (Minn.)-based Brown Wealth Management. Plus, the investor can deduct the gift while getting around the capital gains tax.

A donor-advised fund can be another tax-smart way to give. These vehicles allow people to parcel out a gift of cash or an appreciated

investment, like stocks or mutual funds, to their favorite charities over time—and take an immediate tax deduction. "People enjoy the systematized approach to charity," notes Luke Hail, a financial planner with Cincinnati wealth-management firm Foster & Motley. "Usually they actually end up making higher contributions to charity than if they would have made ad hoc contributions throughout the year."

IRA rollovers are a new type of donation allowed in 2006. Investors who are due to take a required minimum distribution from their IRA can reap tax benefits by transferring the money to charity. "If you do this directly, you avoid the income tax owed on the distribution," says Tom Orecchio, principal at Old Tappan (N.J.) wealth-management firm Greenbaum & Orecchio.

### **3. Sell Your Losers**

A yearend portfolio tune-up can also help stymie the tax man. As stocks finish a strong year, investors can soften the tax hit from any capital gains they might have booked by taking losses to offset them.

Investors with more losses than gains use up to \$3,000 in losses on stocks sold by Dec. 31 to offset ordinary income. It's important to remember that the losses must be in taxable accounts for investors to enjoy the tax benefits.

Exchange-traded funds, or ETFs, can be a simple way of harvesting tax

losses. An investor might want to sell Intel ([INTC](#)), which is down 15% year-to-date, and buy the Technology Select Sector SPDR ([XLK](#)), a basket of similar companies, suggests Russell Wild, an Allentown (Pa.) financial adviser and author of *Exchange-Traded Funds for Dummies*.

"If you wish, after 30 days you can sell your ETF and repurchase your beloved Intel," Wild says. "Voilà, you've just earned yourself a sweet tax deduction."

Mutual fund shareholders, too, should beware of capital gains payouts (see BusinessWeek, 12/4/06, "[Taking Stock of Taxes](#)"). Find out when a fund is making its distribution, and don't buy the fund before that date.

"Many international and growth funds have had sizable distributions this fall," says James Daniel, founder of Alpharetta, (Ga.)-based financial-planning group the Advisory Firm. "The tax bill is going to be large."

## 4. Use Your Time Wisely

The holiday season is a hectic part of the year already. For taxpayers hoping to reduce their bills to Uncle Sam, it only gets busier. Pushing up deductible expenses into the current year could be a good way to lessen the tax pain.

In some cases, paying expenses early may allow taxpayers to itemize their deductions, rather than just take the standard one, financial advisers say. This strategy can also benefit investors who expect to be

in a lower tax bracket in 2007. Jim King, a financial advisor at Itasca (Ill.) wealth-management firm Balasa Dinverno & Foltz, recommends accelerating mortgage payments, tax payments, and medical costs if you are sure they can be deducted.

## 5. Watch out for the AMT

Different guidelines apply if an investor is subject to the alternative minimum tax, or AMT (see BusinessWeek.com, 1/12/06, "[Coping with the Alternative Minimum Tax](#)"). Investors getting slapped with the AMT might want to postpone making their state income tax and property tax payments until next year, suggests Burt Hutchinson, president of Lewes (Del.) financial-planning firm BLH Financial Services. Those payments aren't deductible if the taxpayer owes the AMT.

Trouble is, figuring out whether you'll qualify for the AMT might not be easy. Risk factors include gross income over \$100,000 combined with the exercise of stock options, large capital gains, high property tax or mortgage interest deductions, and many dependents. "If AMT hit last year or may hit this year, time with the tax preparer before Dec. 31 could be a good investment," says Scott Anderson, a Newport Beach (Calif.) financial planner.

But there's no need to wait until the last minute to consider tax issues. Investors may want to map out some tax savings strategies early next

year to avoid the yearend crunch—consider it your next New Year's resolution. The savings might even pay for that gym membership.

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