



Investment Insights

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Get a jump on year-end planning

As the end of the year rapidly approaches, now is the time to start thinking of moves you can make before December 31st to better your financial picture. Here are a couple of ideas to get you started.

Fund your retirement

Contribution limits to IRA's, ROTH IRA's, and company-sponsored retirement plans (i.e. 401(k)'s) have been increased with the tax law changes of 2001. You can now contribute up to \$3000 in an IRA or ROTH IRA for 2002. If you are over the age of 50, you may also be eligible for an additional \$500 "catch-up contribution". In many qualified plans you can now defer as much as \$12,000 of your salary into a retirement account, with an additional \$2000 contribution limit available for those over the age of 50. Check with your CPA and see what accounts you should be funding to maximize your retirement savings and minimize your tax bill.

Start a retirement plan

If you are self-employed or a business owner, and you have been considering starting a retirement plan, you generally must have the plan established by December 31st. An example would be Keogh plans, which must be set up by 12/31 but can be funded by your tax-filing deadline (usually 4/15 of the following year). If you are self-employed, you may be eligible to contribute as much as \$40,000 to a retirement account, which can reduce your tax bill by thousands of dollars!

Be sure to take required distributions

If you are over the age of 70 ½ this year, you must begin taking distributions from your retirement accounts by December 31st of this year. Your retirement plan custodian should be able to provide you with the distribution table used to calculate how much you need to withdraw, and they can also provide you with the paperwork necessary to make the distribution. Be sure to take into consideration all retirement accounts you have when calculating the minimum required distribution. This process can take time, so check with them now to make sure the process is completed by the end of the year.

Make tax-free gifts

You can gift up to \$11,000 per year per recipient. Married couples can each gift \$11,000 per year per recipient. If you have plans to make such gifts, be sure to make them by 12/31. This can be a great way to reduce the size of your estate, and the gifts can be great ways to jump-start a college savings plan for your grandkids!

Take losses on investments

Most investors have losses in investments they have made in recent years. With the markets making a strong rebound this year, make sure you have sold off all of your “dogs” and are best positioned to participate in this recovery. Now is the time to review your investments, take losses in under-performing assets, and move the money to more promising investments. Realized losses can be used to offset realized gains, and if your losses exceed your gains you can use up to \$3000 of losses to offset ordinary income. Thus, you can “recover” some of your investment losses by lowering your tax bill. Any excess losses can be carried forward to offset gains in future years. You can use this opportunity to clean up your portfolio, and make sure your new investments are well diversified and appropriate for your financial goals.

Talk to your financial advisor and tax advisor about these issues today to make sure you end the year in the best financial health you can be.

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