

Tax Loss Selling for the Masses

'Tis the Season to Reduce Your 2008 Taxes

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Money Talks

Already we are seeing holiday lights adorning homes, which means that this year will soon close and a new one will begin, full of its own promise—and uncertainty.

For taxpayers though, this time of year means getting proactive about reducing the amount you owe come April 15. There are many things you can and should be doing, but a few items deserve your immediate attention. This week we highlight some actions you may want to take.



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1) Retirement plan: Does your employer offer a 401(k) or other retirement plan? If so, you have very little time left to boost your contribution amount and maximize the plan. There are many

retirement plan options, each with its own contribution and other limits. Find out what type you have and what the rules are. If you are 50 or older, pay special attention to the “catch up” provision for that particular plan. This provision may allow you to contribute as much as \$5,000 more than someone under 50.

2) Required Minimum Distributions (RMD): Are you over age 70.5 and do you have an IRA? If so, you must take your RMD. If you turned 70.5 this year, you may have heard about a special provision; for the first RMD after turning 70.5, the IRS allows you to wait until April 1 of the following year to take your distribution.

Think carefully before accepting the waiting option. Normally, postponing taxes is preferable. Remember, though, that next year you will have to take your distribution before December 31, forcing you to take two distributions in one year, potentially increasing your income tax rate considerably.

3) Tax loss selling: This year, more than most, investors hold investments that are “underwater,” meaning that the investments are worth less than their original purchase price. You could just sell the investment and claim the loss on your taxes. However, what if you want to own this exact same investment for the long term, perhaps stock in a company you believe in? If this is the case, the Internal Revenue Service will allow you to sell the investment and buy it back again. The caveat? You must wait until 31 days have passed to purchase the investment again if you want to claim the loss.

Another way to use market losses involves selling investments that are at a loss, and purchasing another investment that is similar but not identical. For example, assume you own a stock at a loss. By selling the investment you own, and using the proceeds to purchase another similar investment, you get to claim the tax loss and still remain invested in an asset class that suits your investment strategy.

4) Roth conversions: Converting from a Traditional IRA to a Roth IRA makes sense for many people, and if you are one of them, now may be the perfect time. The reason is that income tax is paid on the amount converted. When IRA assets are at a lower valuation, presumably because the stock market has done poorly, then the amount converted will be lower and therefore will result in lower taxation. Conversions are subject to various limitations including income caps, so you’ll want to check to see if you qualify.

5) IRA Charitable Rollover: As part of the “bailout plan” Congress passed recently, individuals over 70.5 years old may continue to roll-over up to \$100,000 from an individual retirement account (IRA) directly to a qualifying charity, without recognizing the assets transferred to the qualifying charity as income. Congress extended the IRA charitable rollover provision so that eligible contributions may now be made through December 31, 2009. This could allow you to contribute to your favorite cause without incurring current income taxation.

This information is not intended to be a substitute for specific, individualized tax, legal, or investment planning advice. I suggest that you discuss your specific tax issues with a qualified tax advisor. But don’t wait until the last minute since some of these ideas take time to implement. Using even one of these ideas could save you significantly on April 15. Whatever applies to your situation, get on it!

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