

Year-End Tax Finance: Plan Now for April

By David Whitemyer

Julie and Tim Wallman of Indianapolis caught their fifteen minutes of fame about five years ago. Pregnant with twins, Julie delivered babies on both sides of the millennium straddle – one on December 31, 1999, right before midnight, and one in 2000, immediately after – launching the Wallman family into minor local celebrities.

But had their babies been born an hour earlier, both in 1999, they would've reaped a few thousand extra dollars from Uncle Sam in the form of standard deductions and child tax credits.

Fair? Perhaps not. But that's the law.

Of course, children are more than just walking tax breaks. And births are hard to plan with precision. There are, however, a host of other end-of-the-year strategies you can use to help lower April 15th's tax pain.

The goal is to reduce your total taxable income while retaining your net worth. Whether you're a major Wall Street player or a rookie saver, year-end financial planning can save you money. Consider a few tactics:

- If you have an IRA or an employer-sponsored 401K, take advantage of your maximum allowed annual contributions before New Years (some plans allow contributions until April 15th, 2005). Depending on your plan, age, and filing status, this number will vary. Contributions are made pre-tax, reducing your total taxable income.
- If possible, defer income into next year. If self-employed, hold off invoicing clients until late December. If you're fortunate enough to receive a holiday bonus, consider asking your boss to pay you in January.
- Payments that are tax deductible, such as real estate taxes, state income taxes, and loan interest, should be delivered by late December. Mail January's mortgage payment early enough in December so that the interest shows up on your loan provider's 2004 Form 1098.
- 'Tis the season to be generous! Charitable contributions are tax deductible. You may have a favorite charity. If not, consider giving money to your child's school or the local library. If donating goods, such as clothes or books, get a copy of IRS publication 526 to help determine its value.
- It's the gift that keeps on giving. Though not as alluring as jewelry, nor as comfortable as a new sweater, cold hard cash makes a wonderful present. And if it lowers your estate/gift tax burden, it's a gift to yourself as well. The IRS will permit you to give, free of gift tax, up to \$11,000 (\$22,000 from married couples) to any person, and any number of persons. How many grandkids do you have?

- It's no fun when your market losses exceed your gains. But if that's the case and you're holding on to some disappointing stocks, thinking they might someday return their original value, consider selling them before year's end. You can deduct, from your income, up to \$3,000 (\$1,500 if filing individually) in capital stock losses.

As with anything related to taxes, your specific situation will be different from the person sitting next to you, based on your filing status, your income, your state, your ups and downs, and the setup of your investment plans. It's worth contacting a financial expert to learn how the particularities of these strategies conform to you.

Remember, many institutions close early on New Year's Eve, so don't wait until the last second to call your bank or financial planner. If you start planning now, the bulk of these year-end tax moves can be completed by Christmas.

Douglas Adams, author of *The Hitchhiker's Guide to the Galaxy*, declared, "I love deadlines. I especially like the whooshing sound they make as they go flying by." Don't ignore the tick-tock target of December 31. That whooshing sound just might be the Tax Man rushing to your door.

#389107

David Whitemyer writes about personal finance, workplace culture, and small business. He lives in Rockland, Massachusetts.

The statements and opinions expressed are those of the author and not necessarily those of Fidelity. Fidelity Investments cannot guarantee the accuracy or completeness of any statements or data.

Fidelity does not provide legal or tax advice, and the information provided above is general in nature and should not be considered legal or tax advice. Consult with an attorney or tax professional regarding your specific legal or tax situation.

Fidelity Investments Institutional Services Company, Inc., 82 Devonshire St., Boston, MA 02109

NetBenefitsSM provided by



© Copyright 1996-2004 FMR Corp.

All rights reserved.

[Important Legal Information](#)

AA=3 AT=3 DC=115 HW=3 IA=3