



TRUST BANK

Simplifying life.

Tips from Your Financial Coach

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2011 Year-end Tax Planning Ideas

You blinked and now it is December. Time sure flies, but don't panic. You still have time to make tactical changes to your investment portfolios. The best time to think about improving your tax position is right now. Here is a list of some year-end tax planning strategies that you still might want to consider for 2011.

Harvest Gains or Losses:

Do you have unrealized gains or losses in your taxable portfolios? Tri-Star can show you how to “harvest” gains or losses to better position your portfolio while minimizing the tax bite. Although tax strategies should not be the sole reason for selling investments, it may be justified in certain cases. You may be able to sell enough “losers” to wipe out all of your realized capital gains for the year. Or, you may be able to sell your “losers” to offset up to \$3,000 of ordinary income. *(But be careful to avoid the wash sale rule. If you buy back the same security within 30 days before or after you dump these stocks, the IRS will disallow your loss.)*

When Selling Your Stocks, be Picky:

Normally when you sell stock you acquired over a period of time, you must use the first-in, first out (FIFO) method to determine your tax basis for the sale. However, many times the stock that you purchased first has the lowest stock basis, which means you will be subject to a larger capital gain. However, Tri-Star may be able to reduce your tax liability by using the “specific ID method”. The “specific ID method” requires you to identify the shares to be sold (in writing) by specifying their cost and purchase dates.

Time Your Mutual Fund Purchases:

Most mutual funds pay out dividend distributions near year-end. If you want to buy a mutual fund within your taxable account near the year-end, wait until the dividend distribution has been made. If you buy a mutual fund just before the dividend distribution payout date, you will get back part of the money you just invested and owe taxes on it.



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Contribute to Your Tax-Advantaged Accounts:

If you haven't recently reviewed how much you're socking away into your tax advantaged accounts, now is the time to do so. In 2011, you can defer up to \$16,500 (\$22,000 if you are 50 or older) of taxable income by contributing to your 401(k) or 403(b).

Contribute to a Roth IRA:

Are you single with income below \$105,000 or married & filing jointly with income below \$167,000? If so, you qualify to contribute \$5,000 (\$6,000 if you are 50 or older) to a Roth IRA account. A Roth IRA is a retirement account that offers advantages over a traditional IRA account. The primary advantages are:

1. Withdrawals from a Roth IRA are tax-free. (In order to be tax-free, the distributions must be made after the owner attains age 59 ½ and after the account is held for 5 years.)
2. Roth IRAs do not have required minimum distributions at age 70 ½.

Don't overlook this very important opportunity to build a tax-free revenue stream for your retirement.

Roth Conversions:

A Roth conversion may still be a good strategy. 2011 income tax rates are still relatively low AND you would be converting while markets are still depressed. What a great opportunity to pay low taxes today to protect future growth on a tax-free basis!

Charitable IRA Gifts:

If you are 70 ½ or older, you can still make tax-free distributions of up to \$100,000 from individual retirement plans to charities. Gifts must be made directly to the charity. If Congress does not act, this opportunity is scheduled to sunset January 1, 2012.

Need help? Call Tri-Star today to evaluate your options.