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Your December to-do list

Lock in investment gains and losses and consider your tax outlook; New laws affect every decision, including whether to accelerate deductions or even itemize

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In winter, thoughts turn to spring, and the Jobs and Growth Tax Relief Reconciliation Act of 2003.

As you do your year-end financial planning, the tax cuts passed in May permeate nearly every decision.

"There are lots of opportunities, but there are lots of complications with the opportunities," says Ken Sibley, a certified public accountant at Sibley & Co. in Dallas.

For most people, the standard advice still holds: accelerate deductions and defer income. But for others, that advice is reversed, because of complications such as the alternative minimum tax, which is ensnaring more people.

"While most taxpayers will come out ahead by following the traditional approach, others with special circumstances will do better by accelerating income and deferring deductions," according to RIA in New York, a provider of information and software to tax professionals.

Many hard truths may need a rethink - even something as basic as whether to itemize your deductions.

"A lot of year-end strategies assume that the taxpayer is going to be itemizing," says Bob D. Scharin, senior tax analyst at RIA. "The reason why fewer people can be expected to itemize is that the standard deduction was increased greatly for married individuals."

The standard deduction for married couples jumps this year from $7,950 to $9,500, part of the marriage penalty relief.

Another factor that might argue against itemizing: If you refinanced your mortgage this year, you're paying less in interest. The mortgage

interest deduction is one of the biggest benefits from itemizing.

Since more people are on the bubble between itemizing and not, it may be helpful to alternate accelerating deductions one year to allow you to itemize, then deferring deductions the following year while you take the standard deduction, then accelerating, and so on.

Take those considerations into your year-end planning, as you try to reduce your taxes and maximize your investments.

Investing

This is a crucial area this year because of the stock market's rebound, as well as the tax changes that apply to investment profits.

While investors may have started this year still recovering from a treacherous stock market ride, many are set to end 2003 with portfolios that could be far healthier than they've seen in some time.

"Investment decisions need to be driven by each individual's investment goals, but once those goals are identified, factoring in different tax implications can make a significant difference in helping you keep more of what your investments make," says Cameron Routh, vice president of partner relations for CCH GainsKeeper, which provides automated tax-based financial tools and services for the investment community.

Tally up your investment winners and losers for this year. Then, determine whether it would make sense to take tax losses by selling your dogs so that you can use your losses to offset any investment profits, also called capital gains.

"This could be a good time to lock in gains to offset losses you have carried forward for the last few years," says Shashin Shah, a certified financial planner at Financial Design Group in Addison. "With the reduction of the capital gains tax, consideration of selling may increase."

To parlay capital losses into tax savings, you have to actually sell your investment and take the loss.

If your capital losses exceed your capital gains, you can deduct only up to $3,000 of those losses a year against ordinary income. Any excess can be carried over until it can be offset against future capital gains or be deducted as a loss against ordinary income, with a limit of $3,000 a year.

Here's where this year's tax changes come in: Taxes were lowered on both dividends and long-term capital gains, which are profits from investments held for more than a year. (The law also lowered most

regular income tax rates.)

For this year through 2008, both dividends and long-term capital gains will be taxed at 15 percent for taxpayers in the 25 percent and higher brackets. For those in the 10 percent and 15 percent tax brackets, dividends and long-term capital gains will be taxed at 5 percent this year through 2007, then at 0 percent in 2008.

Gains on investments held less than a year are short-term and taxed at your regular tax rate.

For capital gains, the rates apply to transactions on or after May 6.

"The rate changed in the middle of the year, so people have to segregate their transactions," Mr. Scharin says. "That's going to be a tax-return issue."

The Internal Revenue Service has added a column to Schedule D for you to list post-May 5 gains and losses.

Dividends

On the dividends side, the lower dividends tax is a good jumping-off point for tweaking your personal financial planning.

"With dividend income now being taxed at a top rate of 15 percent, it may be advantageous to revisit your portfolio allocations to favor dividends over interest," says **Michael Busch**, a certified financial planner and president of Vogel Financial Advisors LLC in Dallas.

In other words, consider putting dividend-paying stocks into a taxable account and using your tax-deferred account to stash investments, such as bonds, that otherwise would be taxed at your ordinary rate.

Avoid the AMT

The alternative minimum tax has become a giant thorn in the side of average taxpayers.

Congress created the AMT about three decades ago when it discovered that many affluent taxpayers paid little or no tax by cleverly using deductions and credits.

The AMT triggers when a taxpayer claims big deductions, such as unreimbursed employee expenses; has lots of dependent exemptions; and has high local and state taxes.

Because the tax isn't inflation-adjusted, it's ensnaring more average-income taxpayers.

The tax bill sought to provide relief by raising the AMT income exemption to $40,250 from $35,750 for single taxpayers, and to $58,000 from $49,000 for couples. That helps, but the decrease in the regular income tax rates may still increase the chances of some taxpayers being snagged by the AMT because of the way you calculate whether you owe it.

You fall into the AMT if the amount you would pay under the regular system is lower than what you would pay under the AMT. You must pay the excess as AMT.

"The marginal AMT rates haven't changed, but the ordinary rates have come down, so that means if nothing else changes, your ordinary tax will be lower and the AMT will be the same," says Rande Spiegelman, vice president of financial planning at the Schwab Center for Investment Research. "Because you pay whichever is higher, you have a greater chance of falling into the AMT."

Things deductible under the regular tax system aren't deductible under the AMT. These include personal and dependency exemptions, the standard deduction, and state income and property taxes.

"If you're accelerating deductions into this year and you find yourself in an AMT situation, you may not be doing yourself any favors," says Mark Luscombe, principal federal tax analyst at CCH Inc. in Riverwoods, Ill., a publisher of tax information. "Find out before you accelerate deductions into this year whether you're going to fall into the AMT."

Accelerate going forward

Here are some ways to accelerate (or defer) deductions:

*You can accelerate your mortgage interest deduction by making your January mortgage payment this month. Unless you do the same thing next year, you'll have only 11 months worth of payments to deduct in that year.

*You can accelerate charitable deductions before the end of the year, or defer them to next year, if you'd rather itemize them then.

*If you own a business and need equipment or vehicles, buy them now and put them into use before the end of the year.

"The dollar amount of machinery and equipment used in a business that can now be expensed has been increased to $100,000," Mr. Sibley says. "First-year depreciation for certain qualifying business vehicles has been increased to up to 50 percent in most situations."

*Max out your 401(k). The new tax law raised the maximum annual contribution limit this year to $12,000. The limit increases $1,000 a year until it reaches $15,000 in 2006.

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