2011

Year-End Financial Checklist

As we approach the end of the year, it can be important to review your investments and year-end tax implications with your Davenport Investment Executive. It may also be an excellent time to begin a broader discussion of your financial goals for 2012 and beyond. Here is a checklist to help you focus on 11 specific strategies and opportunities.

☐ CAPITAL GAINS/LOSSES

The sale of a security held one year or less results in a short-term capital gain or loss. Short-term capital gains are taxed at an individual's federal marginal income tax rate (10%, 15%, 25%, 28%, 33% or 35%). The sale of a security held more than one year results in a long-term capital gain or loss. Long-term capital gains are generally taxed at 15% but have a 0% rate for taxpayers in the 10% or 15% brackets. You should understand that the 0% rate may only apply to a portion of the gains recognized. Because capital gains and losses during the tax year are netted against one another for income tax purposes, you may benefit by adjusting your portfolio by December 31. You should consult your tax advisor if you are considering realizing long-term capital gains this year.

☐ WASH SALES

If you sell a security at a loss before the end of the year, be aware of the wash sale rules. The IRS states that a taxpayer may not take a deduction for the loss if he also purchases the same security (or a "substantially identical" security) during a period 30 days before or 30 days after the sale. Please note, if you sell for a loss on December 30, 2011 (*December 31, 2011 is a Saturday*) November 29, 2011 is the last day to double up on the security to avoid a wash sale and January 30, 2012 is the first day that you may repurchase the same security subsequent to the sale.

☐ MUTUAL FUNDS

Be cautious about buying mutual fund shares in a taxable account toward the end of the year. Many funds distribute their taxable gains for the year in the month of December so it is important to avoid creating a tax liability on a year's worth of gains when you may have held the shares for only a few days. Please consult with your Investment Executive or the individual mutual fund company about the capital gains distribution status of any mutual fund that you may purchase between now and December 30 *(December 31 is a Saturday)*.

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IRA CONTRIBUTIONS

The maximum contributions to both traditional IRAs and Roth IRAs is $5,000 for 2011 (subject to eligibility requirements). Contributions may be made until April 16, 2012 *(April 15, 2012 is a Sunday)* and still be counted for the 2011 tax year. Please note that individuals ages 50+ are eligible to make an additional $1,000 "catch-up" contribution. In 2012 and future years, both the $5,000 maximum contribution and the $1,000 catch-up contribution will be eligible for inflation adjustments.

RETIREMENT PLAN CONTRIBUTIONS

The maximum salary deferral limits for 401(k), 403(b), and 457 plans in 2011 are $16,500. If age 50+, an employee may contribute an additional $5,500 per year under these plans. In 2012 and future years, both the $16,500 maximum contribution and the $5,500 catch-up contribution will be eligible for inflation adjustments.

BENEFICIARY DESIGNATIONS

Now is an excellent time to review beneficiary designations for IRAs, qualified plans, and life insurance policies. For example, the beneficiary designations on these accounts should generally be living people and not "my estate." It should also be noted that the distribution of these accounts is determined by the beneficiary form, not by the individual's will. Finally, life changes such as birth, divorce, and death may require modifications to your beneficiary designations.

REQUIRED MINIMUM DISTRIBUTIONS

IRA owners who turned 70 ½ prior to 2011 must receive their RMD by December 30, 2011 (*December 31, 2011 is a Saturday)*. IRA owners turning 70 ½ during 2011 have until April 2, 2012 (*April 1, 2012 is a Sunday)* to make their first minimum distribution.

EDUCATIONAL PLANNING

529 College Savings Plans have limits set by individual states, and federal gifting rules apply to contributions. If you make a contribution by December 31 to a 529 plan sponsored by your state of residency, you may be eligible for a state income tax deduction or credit for 2011.

CHARITABLE GIVING

Specific record-keeping requirements must be satisfied to deduct any cash donations made to a charity. You must be able to provide a bank record or written communication from the charity as documentation regardless of the size of the donation. Donations to charities must be mailed (not necessarily received by the charity) by year-end in order to secure a 2011 deduction. **Note**: For 2011, individuals over 70 ½ may again make donations directly from IRAs to charities without reporting taxable income.

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GIFT AND ESTATE TAXES

In 2011, you are allowed to give $13,000 in cash or securities to any other individual free of federal gift tax; however the gift must be completed (i.e. deposited) by December 31 in order to count for the 2011 tax year. Direct payments of tuition or medical expenses are not included in the $13,000 limit. In addition to the annual exclusion, you may gift a total of $5 million during your lifetime free from gift tax. During 2011, gifts in excess of the $5 million limit are taxable at a rate of 35%. Estates of decedents dying during 2011 will be taxed at 35%, with a $5,000,000 exclusion and a full step-up in basis.

ROTH IRA CONVERSIONS

Beginning in 2011, the Tax Increase Prevention & Reconciliation Act of 2005 (TIPRA) eliminated the $100,000 modified adjusted gross income limit previously in place to qualify for a Roth IRA conversion, making anyone eligible to convert a traditional IRA to a Roth IRA in 2011 and subsequent years. For Roth conversions during 2010 only, the income from a conversion can be spread equally over 2011 and 2012. Taxpayers who converted during 2010 will need to include the related income on their 2011 income tax returns. There are many factors that must be considered before making the decision to convert to a Roth IRA. You should consult your Davenport Investment Executive and your professional tax advisor before taking any action.

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