

From Balancing Your Checkbook to Monitoring Cloud Files, It's Worth the Work

Year-End Financial Housekeeping

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One of the most common New Year's resolutions is to "be more organized." While many of us get off on the right foot in January, by year-end some of these resolutions have fallen by the wayside. As we head into the holiday season, we think it's a good time to do some financial decluttering and organizing. This will make sure nothing slips through the cracks at year-end and help you make a good start in 2023.

Review Your Portfolio With Your Financial Adviser

Schedule a meeting to review your portfolio with your adviser. The two primary topics should be a review of your asset allocation and a discussion of any moves that may reduce your taxes before year-end.

The purpose of reviewing your asset allocation is to make sure that a particular asset category hasn't gotten too large or too small during the year. Different investments grow at different rates and your allocation can diverge from your original plan if not reviewed regularly. If you don't have an adviser, figure out what percentage of your investments are in cash, fixed income, U.S. stocks, international stocks and any other investments (not including your home).

The appropriate asset allocation depends on your particular circumstances and risk tolerance, so it's important to know where you are in order to calibrate your allocation appropriately.

As for taxes, your adviser can tell you what long- and short-term gains you have taken for the year to date. Your adviser should also be able to tell you if any of your investments are expected to pay out taxable distributions (dividends or capital gains) by year-end. You may have investments with taxable losses that can be harvested to offset any gains. Even if you have no gains, up to \$3,000 in realized losses can be used to offset ordinary income. You can also receive a summary of investment income earned year-to-date.

Check In With Your Accountant

For many, 2021 was a particularly high tax year, thanks in part to several years of significant investment gains. If you pay estimated taxes, your payments are based on your 2021 income, which might have been higher than normal. It is a good idea to check in with your accountant and confirm what you've earned and what you've paid in taxes thus far match up.

This includes the investment income noted above. If you're making estimated payments quarterly and 2022 income is lower than last year, you may be able to skip your last payment. Alternatively, if you've gotten a bonus

or a raise that's larger than normal, this will ensure you've withheld or paid the proper amount to the Internal Revenue Service.

Update Your Records and Check Your Credit Report

In the past, one of our primary financial chores was balancing your checkbook.

If you write checks, that's still important, though most expenses these days are paid electronically or with a credit card. Now is a good time to request the free credit report you are entitled to annually. Review it and make sure there are no delinquencies, unknown accounts or errors.

If you use an app or program to track expenses, such as Mint or Quicken, check that the data is up to date. Account links between apps often need to be refreshed. If you are diligent enough to categorize expenses, check that your data is in good order.

Declutter Your Files

Here again, times are changing. In the past a big question was how long to hold on to hard copies of statements, tax returns and other documents. While paperless delivery and PDF documents are common, it's still important to understand which documents you need to keep, and for how long.

Keep Basic Tax Returns and Forms for 7 Years

We recommend you keep federal and local tax returns for no less than three years after their filing date. This is the minimum time you should keep your tax records, as this is the general statute of limitations for being audited by the IRS. This is also the period during which you can file an amended return to claim a tax credit or deduction that you may have missed or to report income that was previously misstated or overlooked.

If the IRS suspects your income was understated by 25% or more, however, the statute of limitations for an audit extends to six years. If you have bad debts or securities that became worthless, the IRS gives you seven years to claim the loss. Bottom line: We recommend you keep income tax returns and the records used to prepare them for at least seven years after they were filed.

Keep Certain Tax Records Indefinitely

One tax form you should keep longer than seven years is Form 8606, which is filed if you ever made nondeductible contributions to an individual retirement account. The IRS requires you to keep copies of forms



8606, 1099-R and 5498 until all the money is withdrawn from your IRA accounts.

While brokerages are required to track cost basis information, if you own a stock directly through the company, or have older investments and have reinvested the dividends into additional shares, you should keep all the annual statements showing these reinvestments. Since the amounts you reinvested add to the cost basis of your investment for tax purposes, a higher cost means less taxable gain when you sell.

W-2 Statements and Social Security Benefits

If you haven't already done so, go to the Social Security website (<https://www.ssa.gov/myaccount/>) and create an account for yourself to get a statement of your benefits. We would suggest you check this annually to make sure it is accurate.

You should keep W-2 statements that report your compensation until you begin receiving Social Security benefits. This way you can check them against your Social Security earnings history. If the Social Security Administration has recorded your earnings incorrectly, and if you have your W-2 statements, you'll be able to get Social Security to correct its records.

Other Financial Statements

Credit card statements that show expenses you deducted on a tax return should be kept at least seven years unless you have another way to prove you paid those expenses. Otherwise, if there are no disputes about the charges, there's no need to keep these statements beyond the current year.

You should keep bills and receipts for tax items for at least seven years. Receipts for the purchases of valuables should be kept as long as you own the item, since they might be needed for an insurance claim if the item is ever lost or damaged. You can throw out receipts for non-tax-related items you've charged as

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soon as you confirm the correct amounts are shown on your credit card statement.

You can discard policies for auto and homeowner's insurance once the policy has expired. Note that you probably don't receive the actual policy document itself every year, just the new proof of coverage each time the policy is renewed. Make sure you save the policy itself as long as it's in effect and retain proof of your current coverage. Proof of coverage for prior policy periods can safely be discarded.

You should keep the settlement documents from the purchase of your home indefinitely. In addition you should keep receipts of all home-improvement expenses. Home maintenance such as repainting doesn't count, but modernizing your kitchen or bathroom does. You not only need the credit card receipts, but you also should have a description of the work performed. If you redo your kitchen, you probably have architectural drawings and an itemized list of expenses. All these records should be kept so that when you sell your home, you can add these to your tax cost and can substantiate these expenses.

If you've filed gift tax returns, they should be kept forever.

Make Sure Your Records Are Safe

If you do keep paper copies of information, we suggest you put these records in a fireproof cabinet. We recommend having a file for each year's tax return with supporting documentation filed in chronological order. You should have a separate file for each insurance policy as well as

credit card statements, home improvement documentation and receipts for valuables purchased.

Today, many people keep electronic copies of documents. If you do, it's important to have a data backup system, in the cloud and/or on a separate hard drive, and use it frequently. Additionally, all sensitive information should be password-protected so that if your computer is stolen or your account is hacked, your financial data isn't easily available. When it comes to hard copies, make sure you shred the documents when you dispose of them.

Conclusion

Although it takes some effort to stay organized, it's worthwhile, especially if your tax return is audited, you have an insurance claim or sell your home. This way you will be sure nothing slips through the cracks at year-end and you'll start 2023 in good order. A little proactive effort now will keep you from scrambling later! **B**

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