How a Holiday Spending Plan Can Turn Humbug to Ho, Ho, Ho!

The decorations, the shopping mall Santa Clause and, of course, all those screaming retail deals mean it is time for American consumers to start compiling their holiday shopping lists.

The challenge many consumers face when holiday gift-giving season rolls around is making sure that in opening their hearts to show appreciation for the people they care about, they do not open their wallets beyond what is financially practical. The post-holiday bills that result from generous-to-a-fault holiday gift-buying habits can be harder to stomach than a stale holiday fruitcake.

“The generosity of spirit and the feeling of joy you get in giving gifts can turn into feelings of buyer’s remorse, pain and anguish come January when you get your credit card bill,” said Charlotte Dougherty, CFP®, who heads Dougherty & Associates in Cincinnati, Ohio.

All it takes to experience the joy of giving without the post-holiday debt hangover is a little advanced planning, creativity and control over your consumer impulses.

It starts by assembling a list of the people for whom you plan to give gifts, and determining a bottom-line amount of how much you can afford to spend on gifts this year. Then determine what you can spend for each gift, based on that figure. If money’s really tight….

Use unique gifts to show you care and lighten the financial load in the process. “It does not have to come from the store to come from the heart,” Dougherty said. Indeed, some of the best gifts cost next to nothing. “Use your talents and your creativity to come up with homemade gifts things like baking cookies or knitting something or making a photo book or calendar for someone.”

When you start shopping, have the list and budget in hand, and stick to it. Track each gift you purchase, including the extent to which it exceeded or fell beneath the budgeted amount.

Just say no to impulse buys and plastic**.** Those amazing holiday deals retailers dangle are difficult to resist, especially if you are armed with a credit card. But resist you must, because the credit card finance charges you will incur from an impulsive gift-buying binge are a gift that will keep giving (headaches) well into the New Year. Dougherty’s advice: “Use a debit card or cash whenever possible and limit the amount you put on a credit card to what you can pay back right away.”

Stash money for holiday gifts in a savings account. It may be too late to begin saving for this year. But there is always next year, so start setting aside a little each month now.

Reward yourself for sticking to your holiday spending plan. As good as it feels to give, receiving is not bad either. So buy yourself something nice (but not too pricey!) for staying within budget.

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Eight Ways to Gain an Extra Tax Edge

The golden rule for minimizing your tax burden and avoiding unpleasant surprises from the IRS can be summed up with two words: ***PLAN AHEAD***!

Setting aside some time now for end-of-year tax planning (in consultation with a tax specialist if necessary) can pay off in a big way on your 2011 tax returns, according to tax experts from the Financial Planning Association in Denver, Colo. “The earlier, the better” when it comes to tax planning, said Irwin Gross, an FPA member and a wealth manager with Family Wealth Partners in Weston, Fla.

To give yourself an edge come tax-filing time, the experts recommend considering the following eight tried-and-true planning steps now:

1. Start by reviewing your tax return from last year to gauge the extent to which your tax situation this year may differ (in terms of income, deductions, etc.), suggests Laurie Siebert, CPA, CFP®, a tax expert and financial planner at Valley National Advisers in Bethlehem, Pa.
2. To capitalize on the advantages that may come with itemizing your tax deductions, consider bunching your deductions, for things such as mortgage interest paid, charitable contributions and medical expenses in the current tax year. Bunching deductions and filing an itemized return every other year is a strategy that can work for taxpayers who otherwise might not have enough deductions to justify filing itemized returns each year, said Siebert.
3. Take advantage of tax breaks that expire after 2011. Talk to a tax expert or do the research yourself at **irs.gov**. An hour or two of your time can pay off in hundreds, even thousands, of dollars in tax savings.
4. Be aware of, and ready to pounce on, other tax breaks for which you may be eligible, such as deductions for the state sales tax you paid over the course of the year, or the interest you paid on a home (or home refinance) loan.
5. If you are facing the prospect of paying substantial capital gains taxes, Gross suggests talking to a financial planner or tax expert about strategies to offset those gains by “harvesting” capital losses.
6. Reduce your tax tab by paying certain taxes early. For example, paying real estate taxes for this year and next could net you a double tax deduction, plus a discount for paying early, notes Gross.
7. If you are paying college tuition with funds from a 529 college savings account, consider paying part of the tuition tab with out-of-pocket funds. That makes you eligible for the soon-to-expire $2,500 American Opportunity Credit for education-related expenses, while preserving 529 funds to use later, said Siebert.
8. People 70 ½ and older can take advantage of a soon-to-expire “qualified charitable distribution” provision allowing them to donate all or part of the amount (up to $100,000) they are required to take from their individual retirement account (an IRA RMD) directly to a charitable organization. That charitable distribution does not count toward the taxpayer’s gross taxable income, explains Siebert, meaning it can reduce their income tax and social security tax liability.

Finally, remember to always talk to your tax professional about tax implications before making significant changes to your retirement account. This includes converting an IRA to a Roth IRA before the end of the year.

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Debt, the Double-Edged Sword

The debt amount a person or entity owes to a creditor for funds borrowed is a four letter word capable of conjuring cold sweats in many Americans. Taking on certain kinds of debt may actually be a shrewd, financially sound move, according to experts at the Financial Planning Association® (FPA®), the largest membership organization for personal financial planners in the U.S.

"It is important for consumers to know the difference between good and bad kinds of debt, so they can take advantage of the good while avoiding the bad," said FPA member Diane Maloney, CFP®, and president of Beacon Financial Planning Services, Ltd., in Plainfield, Ill.

"GOOD" debt, said Maloney, is debt "that ultimately functions as a means to increase your net worth, that is used to yield an item with long-term appreciating value," such as real estate. It is also debt that is within one's means to repay.

Some forms of GOOD debt:

• Tax-deductible debt. Mortgage interest is tax-deductible. Essentially you are using the bank's money to finance the purchase of a long-term investment, a home, and getting a tax subsidy in the process.

• Debt used to finance education. Funds used to cover education costs are tax-favored in certain situations.

• Debt used to finance home improvements (new kitchen appliances, basement renovation, etc.) that increase the value of a home, as long as that increase in value is at least commensurate to the cost of carrying the extra debt. "With something like a home equity loan, you have to be reasonably confident you are not being overextended and can meet the terms to pay it off," Maloney cautions.

• Debt used to fund a business or enterprise. Taking on debt to grow a business becomes a worthwhile endeavor if it leads to greater profitability.

• Debt used to finance a vehicle. Many people rely upon a car to get to work and earn a living.

"BAD" debt, on the other hand, is debt "that is unlikely to yield anything of appreciating value and that you are unlikely to be able to repay in a reasonable amount of time," said Maloney, burdening the debtor with more interest/finance charges.

Some forms of BAD debt:

• Buying consumable goods including groceries, clothes, luxury items, etc. entirely on credit. While your credit card tab increases, the value of the goods you bought decreases or disappears altogether. It is better to use a debit card or cash for these kinds of purchases, said Maloney.

• Charges made on a high-interest credit card that cannot be paid off in full in the next billing cycle.

• Funding a real estate/home acquisition entirely, or almost entirely, with debt. Generally speaking, the less equity involved in such a purchase, the greater the risk to the debtor.

• Using debt to fund gambling/wagering activities is a losing proposition.

• Taking equity out of your home and investing that money in the stock market. The risks of doing so far outweigh the potential rewards, warned Maloney.

Need advice on how to make debt work for you, not against you? Consult a financial expert. Tap into FPA's online network at www.FPAnet.org/PlannerSearch/PlannerSearch.aspx to locate one in your area.