



Ways to Minimize Tax on Investment Portfolio

Improving return by minimizing taxes

Although we are all obligated to pay our fair share of taxes, few of us would be pleased to pay taxes unnecessarily. Because taxes lower the actual return on your investments, you should be interested in legitimate ways to minimize taxes on your investment portfolio. Several approaches and strategies exist, including the following.

Year-end tax planning

The basic strategy for year-end tax planning is to time your income so that it will be taxed at a lower rate, and to time your deductible expenses so that they may be claimed in tax years when you are in a higher tax bracket. Also, bear in mind that, generally speaking, taxes should be postponed whenever possible. Year-end planning involves not only a review of your income and deduction situation but also the use of checklists and a marginal tax rate analysis to help you minimize taxes.

The retirement years

It's important to manage income taxes on your investments in retirement. In addition to considering the capital gains consequences of investment decisions, you should manage and control your investment income so that your Social Security benefits either will not be taxed at all or will be taxed only minimally. In

addition, you must ensure that required minimum distributions from pension plans do not push you into a higher tax bracket.

Estate taxes and your portfolio

If your assets are such that you're concerned about minimizing estate taxes on your portfolio, you should pursue strategies today to minimize taxation. Review your investment portfolio for estate freeze possibilities (which remove future appreciation of your assets from your estate) and consider gifting to loved ones.

Lowering your tax bite with mutual funds

You can also minimize taxes by investing in tax-efficient mutual funds that never pay dividends that purchase securities immediately after they have made large dividend/interest payments, or that try to limit capital gain exposure. You also should try to delay purchase of mutual funds or stocks until after it distributes income, dividends or capital gains.

The advantages of capital losses

Understanding how to use capital losses effectively can make a difference in your portfolio's after-tax return. If you expect to recognize a capital gain this year, you should review your investment portfolio for possible capital losses to offset gains. Likewise, if you have any capital loss carryforwards, you should

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review your portfolio for capital gain opportunities to make use of the capital losses.

Taking advantage of tax credit investment opportunities

Understanding how to use tax credit programs as part of your investment portfolio can provide significant advantages. The low-income housing credit and the qualified rehabilitation expenditures credit may provide you with income, tax credits, and tax deductions.

What to do with highly appreciated assets and unneeded income-producing assets

If the value of your investments has increased substantially, and you are concerned about capital gains, there are several strategies you may consider to minimize taxation of highly appreciated assets. If you have more income than you need and are searching for ways to minimize your taxes, you might consider gifting unneeded income-producing assets to relatives who are in lower tax brackets.

Buying on margin can provide you with a tax deduction

If you borrow money from a broker to finance your purchase of stock, you may be able to deduct the margin interest on your tax return.

Caution: Where a margin account holds dividend-paying stock, certain

considerations apply. For tax years beginning on or after January 1, 2003 and before January 1, 2011, qualifying dividends paid to individual shareholders from domestic corporations (and qualified foreign corporations) are taxed at long-term capital gains tax rates rather than as ordinary income. However, for purposes of the deduction for investment interest (which is limited to net investment income), investment income is not considered to include qualifying dividends subject to tax at capital gains tax rates. Individuals may elect to treat such dividends as investment income for purposes of deducting investment interest, but doing so makes the dividends ineligible for taxation at capital gains tax rates.

Caution: Absent further legislation, dividends will again be taxed as ordinary income beginning in 2011.

Caution: Similarly, long-term capital gains are generally not included in net investment income for purposes of determining deductible investment interest unless an election is made to pay tax on the capital gains at ordinary income tax rates.

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The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

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