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## INVESTING | INSIGHTS, ANALYSIS, NEWS & TOOLS

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### INVESTING

## Make More, Keep More

Use these strategies to maximize your returns and minimize your income taxes.

By Jeffrey R. Kosnett, Senior Editor  
David Landis, Contributing Editor

From *Kiplinger's Personal Finance* magazine, March 2008

Two years ago, John and Michelle Laus had \$300,000 burning a hole in their pockets. They got it tax-free from the sale of their house, thanks to maybe the richest tax break ever enacted. Even if you don't have a home with mega equity to sell, there are many ways to defer, avoid or cut your tax bite on all kinds of other savings and investments. With stocks struggling, investment real estate in a rut and bonds, energy and other commodities looking expensive, you need all the help you can get. Instead of railing about taxes, look for breaks on your investments.

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The Lauses, who live in Tustin, Cal., invested most of their windfall in a deferred annuity and a limited partnership that acquires and leases heavy equipment. Last year, both investments earned 8% *after* taxes. John, a 38-year-old film editor, also owns some growth stocks. And he and Michelle, a 36-year-old chiropractor, set aside some money in their Roth IRAs and simplified employee pension (SEP) IRAs.

The couple's seemingly disparate investments have one thing in common: tax advantages. The annuity's interest earnings are tax-deferred. The limited partnership uses depreciation to shelter cash distributions. You pay no tax on holding stocks until and unless you sell for a profit. If you do so, you should pay a low capital-gains rate. Roth IRA distributions are tax-free forever, as long as you are at least 59½ years old and the account has been open at least five years.

By being tax-conscious, John estimates he and his wife will have \$100,000 more in

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retirement in 20 years. Their financial adviser, William Jordan, says that over a lifetime, routine tax planning adds the equivalent of two percentage points per year to after-tax returns on savings and investments. That's real money.

You should be aware, though, that 2008 is a significant tax year for investors. The 5% and 15% rates on long-term capital gains (assets sold for a profit after more than one year) and qualified stock dividends are set to expire at the end of 2010. Unless Congress acts, the capital-gains tax rate will revert to 20% in 2011, and dividends will again be taxed as ordinary income at a rate as high as 35%. Of course, the next President and Congress could raise rates even more and could act sooner, so it's wise to start thinking about cashing in some long-term gainers this year and next.

In 2008, investors also have a rare opportunity to take profits on stocks or funds and pay no tax. That's zero. *Zilch. Nada.* While most investors pay a 15% tax on capital gains, those in the two lowest brackets, which this year means taxable income up to \$65,100 for a married couple filing jointly or \$32,550 for individuals, ordinarily pay 5%. This year, they pay nothing. The deal, which is on the books through 2010, covers many retirees who supplement their savings, pensions and Social Security with asset sales.

Jerry Price, 65, a former chemical-plant manager who retired with his wife to the boating and golf resort of Smith Mountain Lake, in southern Virginia, is ready to grab this freebie. Price has \$32,000 of long-term gains in Pfizer stock, which he's accumulated over many years. The special break will save him the \$1,600 he would have had to fork over to Uncle Sam at the 5% tax rate.

For many other ways you can cut the tax bill on your investments, read on.

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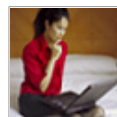
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**POSTED BY: monkeyfurball** (February 15, 2008 11:14 PM)

IMO investing \$300k in an annuity and a heavy equipment limited partnership is a good way to get mediocre returns and give their financial advisor lots of very big commissions. It wasn't a smart investment.

**POSTED BY: Mike** (June 04, 2008 06:23 PM)

Agreed with above poster. They are relatively young at mid 30's. A stock heavy no load, low expenses mutual fund would have given them more return throughout their years. They don't need an advisor to pick one out for them. There are a lot of free sites to do your research nowadays...

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