

## ConsumerSense

### Were you surprised by your tax exposure this year?

Undoubtedly you've heard that the need for tax planning is critical. However, most investors earnestly deal with this subject after the ball drops in Times Square on New Year's Eve. If the amount of taxes you owed last year was a great concern, and if you're worried about your potential liabilities this year, consider approaching taxes as many affluent investors do.

- Typically, they make investment decisions with tax implication in mind all year long.
- Often, they keep a record of their transactions during the year and pay close attention to tax-saving opportunities towards the end of the year, once they learn what they will likely owe in taxes.

In virtually every portfolio, there are capital gains and losses. The goal is to determine how to best manage the tax implications in yours. With your financial and tax professionals' help, you can take positive action and better manage your capital gains taxes on profitable stock transactions. In many cases, you must act by December 31, not April 15, to receive tax advantages for the year.

#### When it Comes to Connecting Stocks and Taxes, Know the Basics.

First and foremost, certain dividends on stocks qualify for special tax rates and others do not:

- Interest income is taxed at a person's highest marginal tax rate and, of course, can increase your taxes.
- Qualified dividends are taxed at a lower rate, as a result of the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003.
- Short-term capital gains are taxed at a person's highest marginal tax rate.
- Long-term capital gains are taxed at a lower rate.

Here is a little more explanation:

- The reduced tax rate applying to qualified dividends are 15% if you are in the 25% tax bracket or higher. To qualify for the 15% rate, you must hold the stock for at least 61 days during the 120-day period beginning 60 days before the

stock's ex-dividend date.

- These special rates apply for dividends received through December 31, 2008.

#### What can you do now to potentially reduce your taxes later?

- Consider the potential advantage of qualified dividend-paying stocks that are taxed at lower rates.
- When buying stocks that pay qualifying dividends, hold them for at least 61 days to qualify for the 15%/5% rate.
- By understanding and managing qualifying dividends, which is just one part of the tax spectrum, you can take more control over your taxes.

#### Plan ahead. Talk to your financial professional now.

Review your options, determine your strategy, and put your tax savings plan into action. Our representative or the CFS\* advisors at UMassFive would be pleased to answer any questions you have and encourage you to contact us.

*This material does not constitute tax, legal or accounting advice. It was not intended or written for use and cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstance from independent professional advisors*

### Have You Read...

#### The Ernst & Young Tax Guide 2008

by Peter W. Bernstein

The most user-friendly, most current guide available to preparing your own tax return, this essential resource contains all the information readers need to save on their taxes.

## Prime Numbers

### UNCLAIMED PROPERTY

The National Association of Unclaimed Property Administrators (NAUPA) claims that Government Agencies are safeguarding unclaimed property funds in excess of \$32,800,000,000 (source: NAUPA).

### COST OF ELDERLY CARE

In 2007, the cost of nursing home and in-home care from Medicare-certified providers increased by 3% and 12%, respectively. The average cost of a private room for a single occupant rose to \$76,322 per year (source: New York Life Insurance Co.).

### PENSION INEQUITY

In 2006, 44.6% of men age 65 or older received annuity or pension income with a mean amount of \$17,200 per year. At the same time, 28.4% of women age 65 or older received annuity or pension income with a mean of \$11,142 annually (source: Employee Benefit Research Institute, Washington)

### INFLATION

According to The Labor Department, consumer prices rose by 4.1% for all of 2007, up sharply from a 2.5% increase in 2006. This is the highest inflation recorded in 17 years (source: The Labor Department).

### FORMAL RETIREMENT PLAN

A recent poll asked well educated, near retirees with above average income if they had a formal, written retirement plan to help them deal with financial issues like generating income, identifying expenses and effectively utilizing income. Only 7% responded affirmatively (source: Prudential Workplace Report on Retirement Planning).

# In Layman's Terms

A Frequently Asked Question & Answer from Craig Layman

**Q:** Should I apply for Social Security retirement benefits at age 62 or wait?

**A:** Deciding when to commence Social Security retirement benefits is a decision that should be carefully considered. Although all qualified Social Security recipients may begin receiving retirement benefits as early as age 62, full retirement age is between age 65 and 67 depending on the person's date of birth. The longer one can defer beginning Social Security benefits, the greater will be the benefit. For example, all those born between 1943 and 1954 will reach full retirement age at 66. If they begin receiving benefits at age 62, their benefit will be reduced by 25%. Although they will receive cost of living adjustments like all other recipients, they will be applied to this lower base benefit. In addition, benefit recipients can delay their benefits up to age 70 and their benefits will increase each year between

5.5% and 8% depending on when they were born. If this sounds quite confusing, it can be, but Social Security has done some analysis and determined that there is a breakeven age. This is the age the recipient must live beyond in order for higher benefits to provide a higher overall lifetime income. For a benefit recipient with a full retirement age of 66 to receive greater overall benefits by deferring their benefit until age 66 vs. age 62, they must live past age 76 and 5 months. The breakeven age for a recipient to defer from age 62 until age 70 is 79 years of age.

If you plan to begin collecting Social Security benefits at age 62, you should also consider that your benefits will be reduced if you earn more than \$13,560 (2008 Threshold). For every \$2 dollars you earn over this amount, your benefit will be reduced by \$1. This reduction in benefits will end when you reach full retirement age.

## Educational Seminars

FREE. Seating is limited. Please RSVP to 800.852.5886.

### Investing Your IRA

Tuesday, 2/19/08, 5:30pm – Northampton Branch

Wednesday, 2/20/08, 5:30pm • Thursday, 2/21/08, 3:30pm – Hadley Branch

We will discuss topics including what it takes to grow your IRA, the potential risks, and how different types of IRAs are affected by taxation.

## Interested in learning more?

I specialize in helping people maintain a healthy financial balance and discover smart money strategies. Call me to schedule an appointment to review your investment objectives and to discuss any questions you might have. I look forward to speaking with you!

**Craig Layman, 413.256.5580**

**UMassFive Financial & Investment Services**

Do you have a topic you'd like to see covered in future *Advisor* newsletters? Email your questions and comments to me at: [investments@umassfive.org](mailto:investments@umassfive.org)



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For specific tax advice, consult a qualified tax professional.