

TAX REBALANCING

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Due to the tax cuts of the past few years it is important that individuals take a hard look at the tax implications of their portfolios. Certain assets that were prudent to hold in taxable and tax-deferred accounts need to be rebalanced based on the rule changes. For example: tax rates on qualified dividends and long term capital gains are only 15% for many tax payers. The question is whether it makes sense to hold certain investments in a tax-deferred account, only to have accumulated amounts taxed at rates as high as 35% when one begins to take withdrawals?

Other items to ponder...

If you hold a growth stock (assume it pays no dividend) in a taxable account, one may defer capital gains until you sell and then pay 15% of the realized gain. In a tax-deferred account, one can avoid paying taxes until withdrawals are made, however that tax rate can be as high as 35%.

Inversely, dividend paying stocks in a taxable account will incur a 15% levy on dividends. The taxes on that same stock in a tax-deferred account can be delayed until withdrawal but, the rate you pay depending on your situation could be much greater.

These are some significant points to ponder when putting your investment and tax plan in place. It is of the utmost importance to rebalance ones portfolio over the years based upon the ever-changing tax landscape.