

Tax Strategy Summary

Introduction

How the Tax System Works

Former President Jimmy Carter called the tax code “a disgrace to the human race.” If you’ve ever wondered how it works, here’s a brief introduction. ... page 2

Avoid the Alternative Minimum Tax

The Alternative Minimum Tax has effectively become a “flat tax” for millions of families, wiping out deductions for state and local taxes, miscellaneous itemized deductions, and more. Avoiding AMT has become more important as more taxpayers become subject to the tax. ... page 9

Withholding and Estimated Taxes

Withholding and estimated taxes are the key to making the tax system work. Review these amounts any time your income changes to avoid an April 15 surprise! ... page 12

Family, Home, & Job

Make the Most of Home Equity Interest

Borrowing against your home lets you convert nondeductible personal interest (credit cards, auto loans, etc.) into deductible home equity interest. However, there may be limits. ... page 16

Potential Savings: Up to \$330 in income tax for every \$1,000 of personal interest converted to home equity interest.

Your Investments

Make Smart Use of Tax Deferral

Tax-deferred accounts such as qualified plans, IRAs, permanent life insurance, and annuities can actually cost you extra taxes. Make sure you choose the right investments to include in these accounts. ... page 19

Make the Most of Your IRA

Congress and the IRS have simplified rules for managing your IRA, and expanded opportunities to avoid penalties for withdrawals before age 59½. Be sure you understand how to manage your account for maximum advantage. ... page 20

Minimum Required Withdrawals

The IRS requires you to start taking money out of your traditional IRA by April 1 of the year after the year you reach age 70½. Make sure you understand how to calculate and manage these withdrawals to avoid substantial penalties for missing this requirement. ... page 21

Minimize Tax on Social Security Benefits

Social Security benefits are taxable if your “modified adjusted gross income” exceeds certain levels. Make sure you examine and understand investments that don’t increase this important figure. ... page 22

Potential Savings: Up to \$6,732 in income tax per year.

Tax Strategy Summary

Understand Mutual Fund Distributions

Different funds can have vastly different tax implications, even for funds with similar investment objectives. Be sure you understand how your funds are taxed before you buy, to build the most tax-efficient portfolio possible. ... page 26

Consider Low-Income Housing Tax Credits

Low-income housing tax credits offer a little-known opportunity to invest a lump sum in exchange for ongoing tax credits. However, these programs aren't for everyone, and there are many circumstances that can disqualify you from participating. ... page 32

Potential Savings: Up to \$8,250 in income tax per year.

Immediate Annuities for Tax-Advantaged Income

If you're investing for retirement income, immediate annuities let you exchange a lump sum for an income you can't outlive. If you invest outside a retirement plan or IRA, part of each annuity payment will be tax-free. ... page 33

Fixed Annuities for Tax-Deferred Savings

Fixed annuities are insurance contracts resembling bank CDs in a tax-deferred wrapper. These can help defer tax on the fixed-income portion of your portfolio, and avoid tax on Social Security benefits. ... page 34

Make the Most of Investment Expenses

Investment expenses such as portfolio management fees and subscriptions to investment publications are deductible only to the extent they exceed a certain percentage of your income. Make sure you take advantage of all these expenses to maximize your savings. ... page 35

Cashing Out

Understand Capital Gains

Tax on most long-term capital gain is capped at 15%. But capital gains can cost you valuable deductions, credits and allowances, and subject you to the Alternative Minimum Tax. Be sure you understand how your gains affect your total bill. ... page 37

"Tax-Engineered Products" for Single-Stock Gains

Blocks of appreciated stock can be difficult to liquidate because selling outright triggers tax on your gain. "Tax-engineered products" may let you defer or even eliminate that tax. ... page 38

Potential Savings: Up to \$150 in income tax for every \$1,000 of long-term capital gain avoided.

Minimize Estate Tax

Federal income tax rates top out at 35% for taxable incomes over \$349,700. But estate tax rates start at 46% for estates over \$2 million. Good estate planning can minimize or eliminate this most devastating tax. ... page 39

Potential Savings: 46-90% of assets above \$2.0 million.

Tax Strategy Summary

Disclaimers

This report is based solely upon information provided by Mr. & Mrs. Thurston Howell III. Don D. O'Dell, CPA has made no effort to verify the accuracy or completeness of this information, and assumes no liability for errors or omissions based on incomplete or inaccurate information.

“Potential Savings” are based on your marginal federal income tax bracket, and where applicable, marginal employment tax bracket (FICA and Self-Employment tax), as calculated using the information you provided. These estimates do not include additional savings which may be available at the state and local tax levels.

Any tax advice contained in the body of this presentation was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.