



Taxes and Investing - Part I

This is the first in a series of email reports on the subject of taxes and investing. Although the return on your investment is important, how much of that return you keep after taxes is also important. Our goal at Curran Investment Management is to provide you with the highest after tax return relative to your investment objectives.

Capital Loss Harvesting

One of the ways we do this is by “harvesting” capital losses. Capital losses arise from the sale of capital assets, such as investment securities, for less than their original cost.

Throughout the year, and especially as the end of the year approaches, we review client taxable accounts (i.e., other than tax-deferred accounts such as IRAs) to identify equity positions with substantial capital losses. Typically then we sell the position in order to book the loss for income tax purposes. If it is a position we want to continue to hold indefinitely, we would buy a temporary replacement security, that is, something similar to the original security, and hold it for 30 days. After 31 days we can sell the replacement position and repurchase the original security. This is necessary in order to avoid the so-called IRS “wash sale” rule, which suspends the recognition of tax losses on securities that are sold and repurchased within 30 days.

The result of this loss-harvesting is to create a pool of capital losses that can be used to offset capital gains and other income. Capital losses are first applied against capital gains realized that year. If capital losses exceed capital gains, the excess up to \$3,000 can be used to offset your other taxable income. If you still have unused capital losses in excess of \$3,000 for the year, they are carried forward to future years indefinitely to apply against future capital gains, as well as future ordinary income up to \$3,000 per year.

By this means we minimize the amount of net capital gains on which taxes are due.

Qualified Charitable Distributions

If you have a traditional Individual Retirement Account (not a Roth IRA), once you turn 70½ years old, you must begin taking Required Minimum Distributions (RMDs) from your IRA each year. You might not be too happy about this requirement if you do not need the RMDs to meet your living expenses, because the distribution will increase your income for tax purposes. Not only will you owe more in income taxes, but an increase in your adjusted gross income could

have other negative consequences. For example, how much of your Social Security benefits are taxable depends on your adjusted gross income from other sources.

With the Tax Relief Act of 2010, Congress reinstated through the end of 2011 only, a popular tax break that had expired. A taxpayer over the age of 70½ can make a distribution from his/her IRA directly to a charity (a "Qualified Charitable Distribution"), up to \$100,000 annually, and the amount of the distribution will not be included in his/her income for tax purposes. In effect, the amount of the Qualified Charitable Distribution from the IRA bypasses the individual's adjusted gross income altogether. This is a great tax benefit for someone who is charitably inclined and does not need his/her Required Minimum Distribution for living expenses. The taxpayer can apply a Qualified Charitable Distribution to satisfy his/her annual RMD requirement.

This benefit is currently scheduled to expire at the end of 2011. We are hopeful that Congress will vote to extend it to future years, but that is not certain.

Please contact your Relationship Manager if you have any questions about the subject of this email, or feel free to contact CIM's Wealth Strategist, Art Dicker, at (518) 391-4280.

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