



Proactive Tax Management

By Dennis B. Mitchell, CFP®

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At Ledyard Financial Advisors (LFA), a division of Ledyard National Bank, we provide comprehensive wealth management services to our clients. Proactive tax management is an important part of this process. Tax management is more than just reporting history on tax returns. Our portfolio managers, financial advisors and tax specialists work with our clients to ensure that they benefit from LFA's philosophy of integrated and proactive tax planning. Our goal is to favorably leverage shifts in clients' personal circumstances, developments in financial markets and constant changes in tax legislation. This will ensure that our clients can take advantage of opportunities that our tax laws present and avoid the pitfalls that lurk among those same laws.

Now that April 15th has come and gone, few people want to think about taxes. However, now we can begin to plan for the current year so that our clients have no surprises next April.

Shifts in personal circumstances:

Events with significant tax implications occur regularly in our clients' personal lives. For younger clients, this may involve marriage or the arrival of a new baby. Older Clients may wish to dispose of a residence at a sizeable gain. Taking such events into account, we can then structure and manage their investments more tax-efficiently, particularly the timing of transactions and security selections.

Events in the Financial Markets:

Events in the financial markets can also have tax implications. For instance, Merck's withdrawal of Vioxx from the marketplace precipitated a sharp drop in the company's stock price. For clients holding Merck, the event created opportunities for post-decline portfolio tax maneuvering, such as realizing losses to offset gains in other areas and dollar cost averaging.

Opportunities for tax maneuvering can also take place before a major event. For example, advance knowledge that Microsoft was planning a large, one time cash dividend provided a variety of pro-active options for certain large holders of Microsoft. Some in tax brackets above 25% had opportunities to give Microsoft stock to family members and other individuals who were in lower tax brackets, thereby reducing the federal tax rate on the eventual \$3.00 dividend to 5% versus 15%. Others could consider giving Microsoft stock to charity, thereby shifting the dividend's taxability to tax-exempt entities and getting a tax deduction for doing it for the full market value of Microsoft before its subsequent \$3.00 price decline.

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Legislative Watchdogs

As wealth management professionals, one of our most important functions is to serve as a watchdog for tax legislations that impacts our clients. For example, legislation enacted in October 2004 provided most of our clients a continuation of the lower income tax rates, credits and deductions that have applied in recent years, plus a one-year extension of alternative minimum tax relief.

Deductions for charitable giving of cars and boats are becoming more difficult. Clients may no longer use the “Blue Book” value for their gifts made after December 31, 2004. Their deductions will be limited to the amount for which the charity later sells the vehicle, if over \$500.

Individuals who itemize their deductions may now elect to deduct state and local sales taxes instead of state and local income taxes. The deduction can be based on actual taxes paid or by using IRS prepared tables. The change favors residents of states like New Hampshire that do not have an income tax. The elective sales tax deduction may also be advantageous for clients with tax-exempt income from certain municipal bonds, US treasuries and other investments.

It is easy to monitor changes in federal individual income tax laws. It takes more time to follow changes in the laws of the several States. Even though low federal rates have been the norm for the last seven years, state rates generally have not been cut. As federal funding of State programs have been rolled back, the States have become more aggressive in going after individual taxpayers through higher tax rates and increased examinations and audits. There is much more complexity in state tax laws than in the federal Internal Revenue Code. States are free to follow federal rules, and most do, but they are not required to. And, as the state portion of one’s total tax burden continues to increase, it is as important to account for state taxation, as it is to account for the federal income taxes. New Hampshire residents know this to be true. “The New Hampshire Advantage” of having no state income tax is simply not true. Our State taxes 5% of interest and dividend income. We also have an 8.5% business income tax, even for the many mom-and-pop-type unincorporated businesses in our State.

Helping clients understand these types of nuances is critical, especially in these days where many people have multi-state tax issues. As national trends (such as telecommuting and owning property in a state other than where one permanently resides) continue, the role of interstate tax planning becomes critical.

Could you be better Positioned?

If you would like to take advantage of proactive tax management for a portfolio worth \$500,000 or more, call us and ask to speak Dennis B. Mitchell, CFP® at 603-640-2715.

About the author-

Dennis B. Mitchell, CFP® is a Senior Vice President with Ledyard Financial Advisors, a division of Ledyard National Bank. He has overall responsibility for business development. Dennis has 24 years of wealth management experience. Prior to joining Ledyard Financial Advisors he held senior management positions at Northern Trust and Key Bank. Dennis received his B.S. in Business Administration from the University of Maine and his MBA from Husson College. Dennis earned his Certified Financial Planner, CFP® designation in 1988.