

Are you planning strategically for the year ahead and beyond?

Wealth Management Insights January 2011

Many investors breathed a sigh of relief when President Obama extended the Bush-era tax cuts, locking in lower rates for taxpayers through 2012. However, just because the tax implications of your investments will be more predictable doesn't mean you shouldn't think carefully and strategically about your wealth management plans for 2011 and beyond. After receiving your year-end financial statements, the start of the new year provides a perfect opportunity for looking back and planning ahead.

What You Should Know:

1. What the Tax Compromise Means to You

The biggest impact of the new law is that tax rates will remain the same as they have been since the 2001 and 2003 tax acts. This includes households with more than \$250,000 of income per year. Additionally:

- Capital gains tax rates will remain at current levels – including the 0% on long-term gains for filers in the 10% and 15% tax brackets – through 2012. (See chart on next page.)
- Business owners will be able to fully write off “productive capital improvements” in 2011 rather than depreciating their cost over a period of years.
- Estates smaller than \$5 million will be exempt from the federal estate tax, while the maximum tax for those above that cutoff point will be 35% through 2012.
- The Social Security tax on the first \$106,000 of every worker's earned income will be reduced from 6.2% to 4.2% for 2011. ▶

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Capital Gains Under the Current and Anticipated Tax Environment

2011–2012			2013+*		
Ordinary Income Tax Rate	Short-term Capital Gains Tax Rate	Long-term Capital Gains Tax Rate	Ordinary Income Tax Rate	Short-term Capital Gains Tax Rate	Long-term Capital Gains Tax Rate
10%	10%	0%	15%	15%	10%
15%	15%	0%	28%	28%	20%
25%	25%	15%	31%	31%	20%
28%	28%	15%	36%	36%	20%
33%	33%	15%	39.6%	39.6%	20%
35%	35%	15%			

* Rates in 2013 are also scheduled to increase by an additional 3.8% for some taxpayers as part of the 2010 health care bill.

2. Think Longer Term

While 2011 and 2012 should be kinder tax years for investors, many economists and lawmakers agree that to address the massive federal deficit, some difficult and potentially unpopular tax decisions may lay ahead. Meanwhile, the performance of specific investments over the past two years may have been influenced by some of the broader issues at play, such as the momentum of the overall economic recovery, the impact of federal stimulus and the uncertainty over the Bush tax cuts. All of these time-specific conditions make a longer view essential to making wise choices for the future.

- Making or holding an investment under the assumption that recent performance will continue can be unreliable. The goal should not be to find an investment that has already performed well, but one with the greatest prospects for future success.
- Look closely at greatly appreciated or concentrated positions this year to determine if selling or reallocating those positions makes more sense in the current tax environment than under anticipated future conditions.
- If you haven't reviewed your estate plan in some time, you should look at it in light of

any personal life changes and the recently extended estate tax laws.

3. Plan What You Can

As recent years have shown, some things that can influence your investments can't necessarily be planned for. However, in addition to taxes, there are many events you can account for ahead of time. For example:

- Some managed investments are required to distribute gains during the year. If you buy before the "ex-dividend" date, you will receive and have to pay tax on that distribution, regardless of how long you actually owned the investment. Be aware of that date when purchasing such an investment in a taxable account.
- If there is a major personal event coming up in 2011, such as a wedding, a birth or the start of school for a child or grandchild, you may want to factor that event and its anticipated cost into any significant portfolio decisions you make during the year.
- If you are in or approaching retirement, think about how things like Social Security benefits and required distributions from retirement plans will impact your financial picture this year.

What You Should Do Now:

Armed with your most recent account statements, an understanding of what lies ahead and the advice of your tax professional, talk to your Financial Advisor about any adjustments that should be made to your asset allocation, financial plans and portfolio in 2011 to help keep you on track toward your long-term goals. ■

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