

Are you planning ahead for tax season?

Wealth Management Insights October 2011

Due to more stringent IRS reporting requirements this year, investors will likely be seeing their 1099s later than in years past. That means less time to prepare and file. Between that, some special circumstances this year and the general uncertainty surrounding the future of the tax code, you may want to start thinking strategically about the tax implications of your investment portfolio for 2011.

.....
You can lock in losses before December 31 to directly offset any capital gains as well as other taxable income.
.....

What You Should Know:

1. The Bush-era tax rates are still in effect.

While there has been much talk in Congress about the need to raise revenues, the deal signed by President Obama last December extended the Bush tax cuts through the end of 2012. For investors, this means:

- Long-term capital gains and qualified dividends are taxed at a maximum rate of 15%.
- Taxpayers in the 15% ordinary tax bracket (maximum taxable income of \$69,000 for a married couple filing jointly in 2011) or lower will enjoy a 0% tax rate on long-term gains and qualified dividends.

2. Some opportunities will end with 2011.

Many higher-net-worth taxpayers are understandably anxious about the end of 2012, but there are some opportunities and advantages that will disappear before then, at the end of this year:

- Business owners can still write off 100% of the cost of capital improvements made before Dec. 31 – including new computers, phones and other qualifying items for a potentially large deduction on their 2011 returns.
- For philanthropically inclined investors older than 70½, the opportunity to make a deductible charitable donation directly from a traditional IRA expires at the end of 2011. If you don't need the money, you ▶

could donate up to \$100,000 and satisfy your required minimum distribution at the same time.

- If you're green-minded, some tax breaks are available for investments in alternative-energy home improvements, such as solar panels or tankless water heaters, made before year-end.
- The latest version of the AMT Patch is scheduled to expire at the end of 2011, meaning this may be the last chance for some taxpayers to avoid paying the Alternative Minimum Tax.

3. Some things are already different.

Not all changes to the tax code are future concerns. Some have already taken effect, and not all of them have negative ramifications:

- If you took advantage of the rule change allowing higher-net-worth taxpayers to convert a traditional IRA to a Roth in 2010, you may still be spreading out the tax consequences of that decision, thanks to a special provision that expired at the end of that year. Conversions made in 2011 will be fully taxable this year.
- The federal gift tax exemption has gone up starting in 2011, allowing a lifetime exemption for up to \$5 million (as opposed to \$1 million previously) in gifts to family (i.e. spouses, children and grandchildren). The annual exclusion amount remains at \$13,000 per person.

4. You may want to harvest losses.

Wild volatility has created uncertainty among investors in the second half of the year, dampening what started out as strong investment performance. But regardless of how the markets end the year, you can lock in losses before December 31 to directly offset any capital gains as well as other taxable income up to \$3,000. Some things to keep in mind:

- If you have more than \$3,000 in investment losses for 2011, you can carry over excess losses into future tax years.
- The IRS "wash sale" rule prevents you from reinvesting money withdrawn from a losing investment in the same or a substantially identical investment for 30 days, either before or after the sale for a loss.
- There are ways to avoid a wash sale and maintain exposure to the market – for example, by investing the loss proceeds into an ETF within the same market sector as the position sold.

What You Should Do Now:

The changing tax environment, particularly for higher-net-worth individuals, makes it more important than ever to understand your specific situation, options and potential implications. We recommend you contact your Financial Advisor and tax professional now to learn more about how you should address these tax-related investment and financial planning issues before year-end. ■

Investors should consider the investment objectives, risks, charges and expenses of exchange-traded funds (ETF) carefully before investing. This and other information is found in the prospectus. For a prospectus, contact your Baird Financial Advisor. Please read the prospectus carefully before investing.

ETF's are subject to the same risks as their underlying securities and trade on an exchange throughout the day. Although investments in ETF's may gain exposure to the same sector as an individual stock, the correlation may be minimal due to a high number of holdings.

rwbaird.com

Robert W. Baird & Co. does not provide tax advice. Please consult with your tax professional before implementing any strategies.
©2011 Robert W. Baird & Co. Incorporated. Member SIPC. First Use: 10/2011. MC-33601.