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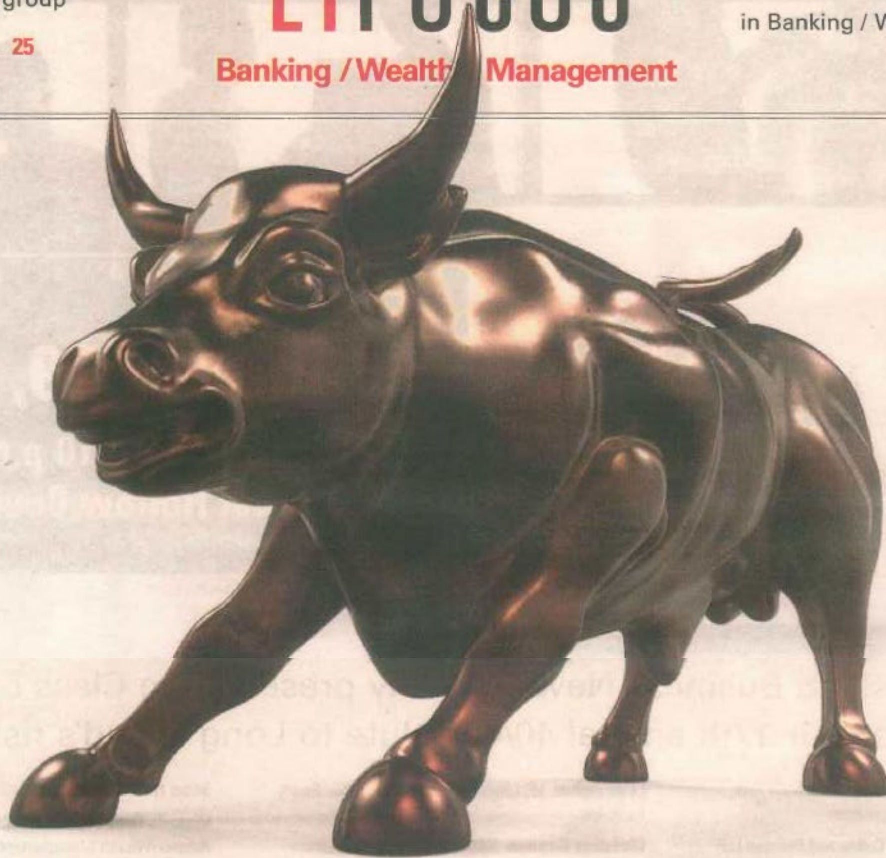

TAX STRATEGIES IN A BULL MARKET

Investors must take stock of the run-up's unique implications

By KRISTEN D'ANDREA

The recent run-up of the stock market has created both an opportunity and need for tax strategizing. Varying yield scenarios and tax implications unique to a bull market can and should affect investors' decisions. Industry insiders, however, caution investors not to let the tax tail wag the dog.

"You have to make sure you're effectively looking at the economics of your investment and their factor on taxes, not the other way around," said Joseph Perry, firm-wide partner-in-charge of tax and business services for Marcum in Melville.

While investors should conduct financial planning on its own goals, after-tax yields should be considered to ensure apples are being compared with apples, agreed John Marchisotta, a partner in the Pivotal Planning Group, part of Jericho accounting firm Satty, Levine and Ciacco.

The current bull market has created some unique situations, however. For instance, in a run-up, many people in the market consider taking their gains and reinvesting. What they should take into account, Perry said, is the tax effect in selling the stock and how that will play into their yield going forward.

For example, an individual who invested $10,000 in a stock that then doubled would have a $10,000 gain. If the stock was sold, the individual would be required to pay $3,080, or approximately 30 percent in taxes, comprising capital gains of 23.8 percent, plus a state rate of 7 percent, leaving about $17,000 to be reinvested, Perry said. If the investment was originally earning a 3 percent dividend, the individual would have to find a new stock yielding 3.6 percent in order to get an equivalent return, he said.

"You would need more money to get the same yield or have to put it in assets yielding higher to get the same return," he pointed out. In that situation, where a stock doubled, "it may make sense not to sell, pay taxes and get less of a yield."

The bottom line: "Stocks should never dictate your investment strategies, and taxes should be a consideration," according to Perry.

Another strategy investors may utilize is tax loss harvesting, or selling stocks that depreciated at a loss to offset a capital gains tax liability.

"Just because it's a bull market doesn't mean that everything you own went up," Marchisotta said, noting small cap stocks, oil stocks and international stocks didn't do well overall this year.

Still, due to the strong market overall and the influx of people investing in mutual funds, there has been an inordinate amount of distribution of capital gains among mutual funds, Perry noted.

"People looking to harvest losses may not be considering that they're getting large distributions," he

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Tax-deferred ways to grow wealth

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cautioned, noting investors may be surprised by the amount of capital gains they receive this year.

Edward Williams, a supervisor at Cerini & Associates in Bohemia, suggests investors maximize tax-deferred ways to grow their wealth, such as utilizing retirement and 529 college savings accounts.

Still, when the market is up and investors' individual retirement accounts grow, for example, if they are age 70½ or older they must take more money out through required minimum distribution.

"That's causing taxable income," Marchisotta said. "You might want to shift those growth assets and let them grow."

For example, if a client with $1 million each in an individual account, such as a savings account, and an IRA takes $30,000 in income from each account, both are taxable, he said. But if the client rebalances and moves money around, he may find he will have no taxable income from his individual account. In addition, required minimal distributions from an IRA may be donated and then do not get reported on an individual's tax returns, Marchisotta said.

For high-net-worth individuals, Williams recommends spreading their wealth out to include potential real estate investments as part of an overall portfolio. In addition to gaining immediate pleasure from the investment, such as a vacation home, there are tax benefits and little potential for a decrease in value if held over the long term.

Williams also recommends individuals look at their estimated tax picture halfway through the year and again at year's end. While state-estimated taxes are due on the 15th of April, June, September and January of the following year, if the Jan. 15 payment is made early, before Dec. 31, the deduction can be taken in the current year and may be more valuable, he said.

JOSEPH PERRY: Consider the tax implications of investment decisions. *Photo by Bob Giglione*

Donating appreciated property and stock is another important strategy in a bull market, Williams said. In fact, the tax effect of philanthropic efforts – in which gains can be donated without ever having to be recognized – can be large.

"Generally, in a bull market, people will have more wealth," Williams said. "To lower your tax on that, make charitable donations or, from a business perspective, reinvest into the business and expense the full amount of equipment in year one versus depreciating it over a couple of years."