

# On The Homefront

Each week a different business-person, artisan or professional who lives or works in Lansing will share some aspect about his or her occupation that may be useful to Lansing residents. Interested in sharing your skills? Call us at 533-7963.

## Last Minute Tax Strategies For '96

By Ezra Cornell

Stay calm. It's not too late to trim this year's tax bill. During the election, individuals were focused on the budget deficit and the U.S. economy. But now it's time for investors to key in on their own portfolios, implement a strategy to minimize taxes for 1996 and position themselves for 1997.

The following tax strategies can still be implemented this year, though individuals should review these ideas with a tax professional before taking action.

1. Take investment losses to offset gains. If you realized capital gains in '96, you may offset them by selling stock or other securities at a loss. Both long and short-term gains can be offset by either long or short-term capital losses without limits.

2. Use excess capital losses against ordinary income. If capital losses exceed gains, you may deduct the excess losses dollar-for-dollar against ordinary income up to \$3,000 (\$1,500 if married and filing separately). Any undeducted losses can be carried over to 1997.

3. If appropriate, wait for long-term capital gains. Long term assets are those held for longer than one year. Net long term capital gains (the excess of long term capital gains over short term capital losses) are taxed at a maximum of 28 percent. Net short term capital gains can be taxed as high as 39.6 percent.

4. "Swap" securities to take losses in 1996 and enhance your 1997 portfolio. You may swap securities by selling an investment at a loss and buying another investment with similar, but not "substantially identical" characteristics. You would then receive the tax benefits of the loss in the year in which you sell the security. You also enhance your portfolio by purchasing a new investment that may be suited to current market conditions.

If you wish to maintain your investment in the same security, you can buy it back. However, take care to avoid what tax rules call a "wash sale," defined as the sale and repurchase of the same or "substantially identical" investment within 30 days.

5. Deduct eligible interest expense. Remember, if you've incurred interest expense on loans used to finance investments other than municipal bonds, that interest expense is deductible up to the amount of your investment income for the year.

6. Sell investments with the highest cost basis first. If you have purchased the same

stock at different times and plan to sell some of the shares, you can minimize your capital gain by instructing your financial consultant to sell the shares with the highest basis cost first. According to the IRS regulations, if you do not provide specific instructions, the share you have held the longest will be sold first.

7. Postpone income or gains. If your investments have done exceptionally well this year, and you expect to find yourself in a higher than usual tax bracket - say 36 percent or even 39.6 percent - consider waiting until 1997 to take income and gains.

8. Fund your IRA - the sooner, the better. You can fund your IRA for 1996 up to April 15, 1997, but the sooner you do, the sooner you can take advantage of the power of tax-deferred compounding.

The maximum contribution for an individual IRA is \$2,000. Thanks to recent changes in tax legislation for 1997, if you have a nonworking spouse, you may contribute up to \$4,000 to two separate IRAs, with no more than \$2,000 going to either. (The previous contribution limit for a non-working spouse was \$250.)

9. Invest the maximum in employer-sponsored qualified plans. If your employer offers a 401(k) or an alternative tax-deferred qualified plan to which you can contribute, take full advantage - you can contribute up to 15 percent of your salary to a maximum of \$9,500.

10. Selling Short Against the Box - Congress was looking at eliminating this tax maneuver, but it's still available for 1996. If you hold a stock long term at a gain, you can lock in a sales price but defer taxation until next year. Borrow shares from your broker to sell "short" in December using your shares as collateral. Next January, or later, use your shares to repay (cover your loan).

Ezra Cornell, of Cayuga Heights, counsels investors for the firm of Smith-Barney's Ithaca office.



**DOUBLE-DIPPING** - Students Daniel Cheatham, Joe Hardie, Maggie George and Chris Carpenter from Mrs. Jennings' and Mrs. Olver's 4th grade classes prepare multi-colored holiday candles.

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