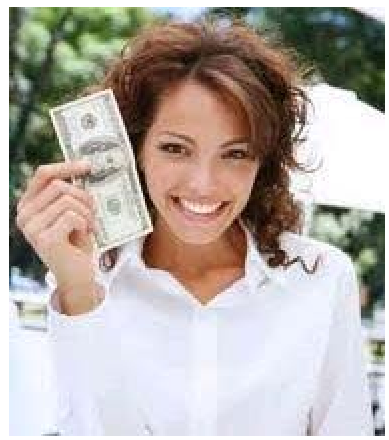
Making the Most of Your Money

By Susan Carr-Templeton / 04/21/11 RSS feed Like

Taxes For 2011: Pay Less Starting Now



As for taxes, it's time to think about the old adage, "It's not what you earn, it's what you keep." Now that you may have felt the pain of writing that tax check, you can consider the most tax-efficient ways to manage your finances in 2011.

1. First, when managing your personal portfolio of investments, be sure you differentiate your taxable account from your tax-exempt account, such as your 401(k) or rollover IRA. Certain investments will benefit you more in one account than the other. If you like to invest in the stock market yourself and you buy and sell shares often, then that kind of activity is best done in the tax-exempt account because otherwise the federal government will tax you at your full rate if you incur a gain on the sale of a stock within 12 months.

If you tend to buy and hold for at least a year and a day, then the gains in a taxable account are taxed at a lo 15 percent rate. Mutual funds whose managers tend to frequently buy and sell can really rack up gains, on which you will have to pay taxes. These can run as high as 35 percent, even though you never sold that fund. Many funds will publish their after-tax returns along with their before-tax returns so take a look before investing and decide where to place your money. I generally tend to put bond investments in IRA or retirement accounts because otherwise the interest earned is taxed at one's full income tax rate.

2. If you have some losers in your taxable stock account and were thinking of getting rid of them, then act now. That loss can be used to offset other gains or future income.

3. If you have a retirement plan at work, maximize your 401(k) investment. If your company does not offer a 401(k) plan, then open up an IRA or Roth IRA on your own. Your IRA and 401(k) contributions are fully tax deferred.

4. If you are a giver, start donating appreciated stock. You can claim the full deduction while the organization to which you have donated can sell the shares at market value and not have to pay taxes on the gains. Many not-for-profits allow you to make a donation for as little as $200 in stock.

5. Finally, if you keep your money with one of the brokerage firms, check out the differences between the

yield on the taxable money market fund versus that of the tax-exempt municipal money market fund. As of this writing, the Fidelity Money Market Fund and the Fidelity Municipal Money Market Fund both yield 0.01 percent. For the same yield, you may want to invest in the municipal fund and save on taxes.

You should implement these easy and practical tips now, so hopefully next year's tax bill will be less than the one for 2010.

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Susan Carr-Templeton is a personal wealth advisor with more than 20 years of investing experience. In addition to managing Stafford Wells Advisors, Susan volunteers on the investment committee for the Advocate Foundation.

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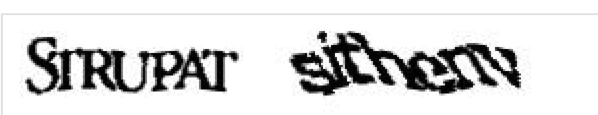

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