



BizBuilder

Business Development Tools and Insights

Election Year Tax Planning Strategies

Form **1040** Department of the Treasury
U.S. Individual
For the year Jan. 1–Dec. 31
Your first name and last name
If a joint return, spouse's name
Home address
City, town or village, state and ZIP code
Label
(See instructions on page 12.)
Use the IRS label.
Otherwise, please print or type.
Presidential Election Campaign Check here
1 Single
2 Married



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We specialize in providing registered representatives & investment advisors with innovative principal protection products & proven marketing programs.

Are you preparing your clients for potential tax increases after this election year?

"Protecting Your Retirement No Matter Who's President

No matter who's elected president, there is a good chance taxes are going up. But that doesn't mean tax-deferred accounts are a bad idea." ¹



"Tax Expectations May Speed Stock Sales

With investors expecting the U.S. government to take a bigger chunk of stock related profits no matter who wins the White House in November, the investment mantra 'buy low, sell high' may soon give way to 'buy low and sell before taxes on capital gains and dividends rise'." ²

Most would agree that there are major political and economic changes on the horizon. In this election year one topic is moving to the top of the mind of many – **TAXES!**

Will capital gains rate change? Will ordinary income rates change? While no one can say for certain, it is certainly prudent to do some planning.

First a little background. The current long-term capital gains tax rate is 15%. This is the lowest it has been in 50 years. It has been as high as 39.9%. Unless Congress takes action before 2010, the Bush tax cuts will expire and the rate will rise to 20%.

Consider also the rising federal budget deficits which have soared to over \$9.1 trillion. ³

The most likely scenario for Washington would be to let the Bush tax cuts expire. That would increase the capital gains rate to 20% and would eliminate qualified dividends. Then dividends would once again be taxed at ordinary income rates up to 39.6%. The soaring deficits may also drive rates higher on ordinary income.

Depending on who gets elected and how the economy performs, there might even be additional tax increases in the future.



Are you preparing for higher taxes on the horizon?

Now is a great time to review your clients accounts and determine what tax planning strategies are most appropriate.

¹ Wall Street Journal February 20, 2008

² USA Today April 28, 2008

³ Congressional Budget Office 2008

How do income taxes impact investments?

Capital gains distributions from mutual funds have become a big issue. The amount of gains distributed by mutual funds was high in 2000 at \$376.7 billion. 2006 surpassed that record when capital gains distributions exceeded \$418 billion. This cost taxable mutual fund investors \$23.8 billion in taxes. Taxes were actually the largest drag on performance by equity and mixed-equity funds, outpacing the group's medial expense ration (1.3% vs. 1.22%).¹

Last year, capital gains distributions topped \$581 billion. To play 'buy-and-hold' in 2007, taxable fund accounts paid over \$33 billion to Uncle Sam.¹

As an experienced financial advisor, you have probably dealt with the client calls over their 1099's on capital gains distributions they didn't receive. The recent bear market poured salt on the wound as taxable mutual fund investors saw the value of their holdings decline and yet they still had to pay tax on mutual fund capital gain surprises.

Now more than ever you, as an advisor, can add value to your client relationships by helping them understand how taxes can impact investment returns. You can help your clients cast an eye towards managing their taxes better. You can educate them about the different strategies available to them to help better manage taxes.



"On Track" Steps for implementing this marketing concept :

- Get familiar with capital gains and ordinary income tax rates.
- Incorporate a discussion about taxes and possible tax rate increase into every client review.
- Be sure to review the form 1040 and especially lines 8a & 9a for taxable accounts
- During every client review, don't forget to ask for referrals. "Are there any folks that might need a 'second opinion' on tax planning?"
- Add a 'seminar bullet' like "Are you prepared for rising taxes after this election?" to your seminar invitations.
- Meet with 3 local CPA's to find out what they are recommending for their clients to address potential rising taxes. Do they have clients who have 'unrealized appreciation' in their company stock?
- Reach out to 401K rollover prospects who might have taken their company stock in a distribution and have 'net unrealized appreciation' that's taxable.

What should your clients be doing now?

In light of the likely increase in tax rates many are considering their alternatives and taking appropriate steps now. One popular option is to lock-in low capital gains rates and utilize tax-deferred products to maximize growth over the next few years.

¹Taxes in the Mutual Fund Industry – 2007, Lipper Research Study



Isn't it time for a fresh look at the benefits of tax deferred annuities?

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Tax Deferral Makes Sense, Again.

Many boomers are now realizing that when they retire, they may have less income to live on and potentially less income tax to pay. Since saving for retirement has become more of a concern for pre-retirees, isn't it time to revisit the concept of tax deferral and income planning?

Tax-deferred investment vehicles provide investors with the potential to accumulate more money over time than would be possible by investing in a taxable account. That's because any tax on investment earnings in these vehicles is deferred (i.e. delayed) until you start withdrawing money.*

It's a way to avoid receiving current 1099's on capital gains, dividends and ordinary income today in exchange for postponing taxation into the future at then ordinary income rates.

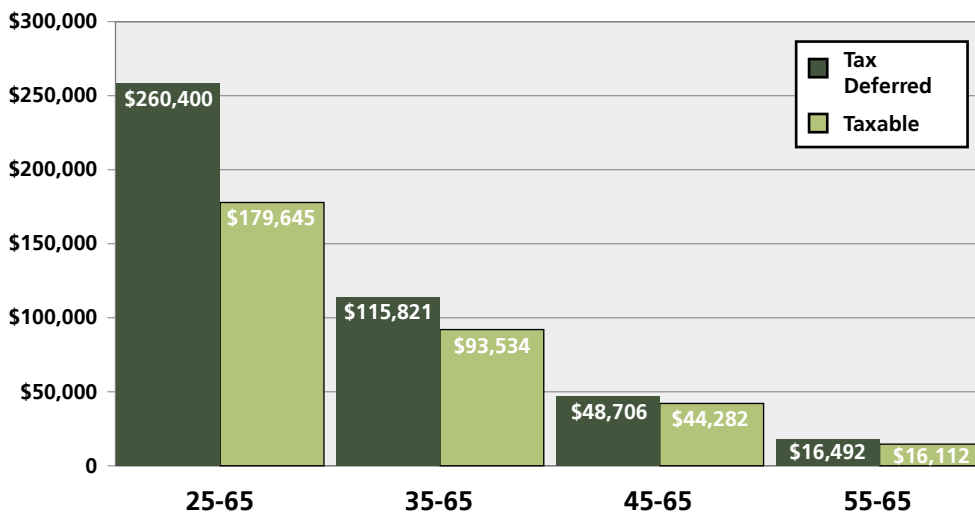
This tax benefit creates the potential for your investments to grow faster than they would in a comparable taxable investment account, where earnings are taxed each year.

Many kinds of investment vehicles may offer the benefits of tax deferral including:

- Company-sponsored retirement savings accounts such as 401(k) and 403(b) plans*
- Traditional individual retirement accounts (IRAs)*
- Annuities*
- Some life insurance products*

** Annuity withdrawals are generally taxed as ordinary income and may be subject to surrender charges, in addition to a 10% federal income tax penalty if made prior to age 59 1/2. The guarantees and payments of income are contingent on the claims paying ability of the issuing insurance carrier.*

Comparing Tax Deferred and Taxable Returns



Past performance is no guarantee of future results.

Current tax laws provide that earnings from an annuity are taxable only upon withdrawal as ordinary income. In contrast, earnings from a taxable account are generally taxed annually and at rates that vary depending upon the nature of the earnings and the individual's tax bracket. For example, capital gains and dividends may be taxed at different tax rates depending upon various factors, including the individual's tax bracket.

Investing on a tax-deferred basis can make a tremendous difference over the long haul.

For example, in the chart to the left, investing \$100 monthly in a tax-deferred investment account earning an 8% annual return beginning at age 25 would yield \$260,400 by age 65, after taxes, assuming that the earnings portion of the accumulated investment was taxed at a 30% rate at retirement.

By contrast, a comparable investment in a fully taxable account would amount to just \$179,645, assuming a 30% tax rate.



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30 Waterside Drive
Suite 100
Farmington, CT 06032

Voice 860.470.0290
Toll-Free 888.470.0290
Fax 860.470.0289

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