Tax Saving Strategies for the New Decade

AXA ADVANCED MARKETS: 10 POINTS TO REMEMBER

While your clients may want to focus only on taxes when April 15 approaches, it's important for you to emphasize the significance of utilizing ongoing tax strategies throughout the year. Taxes can wreak havoc on investments by minimizing or even offsetting growth. Let your clients know that the plans you make now will benefit them the next time April 15 rolls around.

1. Tax planning is a moving target

Tax planning is a moving target but there are proactive planning ideas that can distinguish you from other financial advisors.

2. Ask for tax returns from three previous years

Always ask for your client's tax returns from the three previous years. There is a wealth of client information hidden in those tax returns, including figures pertaining to any outside investment accounts and past capital gains tax exposure.

3. Understand marginal vs. effective tax rates

The difference between marginal tax rates and effective tax rates is important. The marginal tax rate is the highest tax bracket at which any income is taxed, and the effective tax rate is the amount of total taxes paid compared to total income.

4. EGTRRA is due to expire on January 1, 2011

The Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) gradually reduced income, capital gains, and estate taxes over nine years. Pending further legislation, the tax cuts implemented by EGTRRA will expire on January 1, 2011.

5. The tax consequences of retirement income products

When evaluating retirement income products, it's important to understand the tax consequences of each account. Investments that allow assets to grow tax deferred, or have preferential treatment, can help your clients grow their wealth more efficiently.

6. Tax deferral can be a powerful tool in wealth accumulation

Keep in mind that tax deferral has three key benefits:

- The principal earnings of the account are tax-deferred.
- The earnings on the client's earnings are tax-deferred.

As a result, assets compound at a higher rate than if your client was paying annual taxes in a non-tax-deferred investment.

7. Income limitations on Roth conversions lifted starting in 2010

Beginning January 1, 2010 there is no longer any income limitation on conversions from a traditional IRA to a Roth IRA. Qualified distributions from a Roth IRA are tax-free. The tax-free benefit can also be passed on to the beneficiaries of an inherited Roth IRA, making this strategy an important tax planning tool.

8. The taxation of Social Security

Social Security benefits may be taxable based on provisional income. Provisional income equals Modified Adjusted Income, plus tax-exempt income, plus half of the Social Security benefit. One way to avoid having Social Security benefits taxed may be to move taxable assets into tax-deferred products to reduce a client's taxable income.

9. Rethink diversification beyond the Morningstar style box

- Review and compare past and potential returns, factoring in tax consequences.
- Evaluate investment opportunities from a protected/unprotected point of view.
- Try to build tax efficient portfolios for your clients.

10. Network with clients' tax prepares to help grow your business

In order to grow your business and referral avenues, network with your clients' tax preparers. There is a good chance they have similarly situated clients who are in need of an exceptional financial planner.

The AXA Advanced Markets Team is available to assist you. Contact your AXA Distributors wholesaler via the Sales Desk at (888) 517-9900 to learn how AXA Equitable can help grow your business!

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