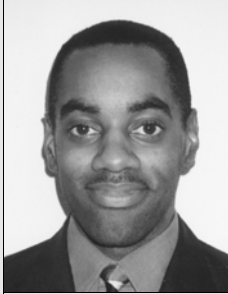




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Volume II



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Stewardship Emphasis

The winner of the game is not necessarily the one who collects the greatest number of coins but the one who is able to keep more of the coins that he collects.

Review back issues of
**The Empowerment
Channel** online at:

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Tips to Increase Your Tax Smarts - Part 2

In the last issue of The Empowerment Channel we began to look at ways you can make yourself more efficient and effective in managing your tax situation by doing a more effective job of planning ahead, record keeping, and monitoring what is going on throughout the year. In this issue, we will look at a few specific strategies you can use to potentially reduce the taxes you owe.

Tip #3 – Take advantage of Infrequently Used Deduction Opportunities

When filing your tax return, you are looking at two parts of an equation: income and deductions. While there are things you can do to lower the income side of the equation, you probably have a greater amount of latitude in maximizing the deductions side of the equation. One available deduction that is rarely talked about is mortgage loan points. If you buy a home and either you or the seller pay origination and/or discount points, you can benefit from the payment of those points by taking them as a deduction on your tax return. If you meet certain criteria, you may be able to fully deduct the points in the year of purchase but most likely you will have to spread the deduction over the life of the loan; however, even spreading the deduction out can put some additional money back in your pocket. Another area of potential deductions is available in converting non-deductible interest to deductible. While most consumer interest no longer qualifies for deductions, you can take steps to get some tax benefit on interest you are paying now by refinancing consumer debt (such as credit card debt) into debt that does qualify for interest deductions, like a home equity loan. Often in refinancing this way you can even lower the rate of interest you are paying as well as getting deductibility from it. In the scenario of a home equity loan, you must have enough equity in the property to absorb the additional debt, but if you have to pay the interest anyway, you might as well get some of it back.

Tip #4 – Using the Retirement Plan Rollover Smartly

With employees moving more frequently in their careers, the IRA Rollover has become a widely used vehicle for the employee to be in greater control of how their assets are invested. For most individuals it is a great way of giving your portfolio much greater exposure. It is usually pretty straight forward that when terminating service with an employer you would benefit from immediately rolling your money into an IRA, but there are cases where you may want to consider the circumstances first. If you participate in a 401(k) and have purchased company stock with some or all of your contributions, you could lose a potentially significant tax advantage by rolling the money over without taking some important first steps. The reason is that appreciated stock in a retirement plan when sold is subject to capital gains tax rather than ordinary income tax, which generally is at a higher rate than capital gains. The strategy when preparing to execute the transfer, therefore, is to first withdraw the company stock from separately from other funds in the plan, at which time you will be taxed at ordinary income tax rates on the contributions only. The second step is to then roll over the remainder of the money in the plan to the Rollover IRA and if you choose to you can transfer the stock as well, perhaps into a brokerage account, so that when you take distributions from the stock, you will only pay capital gains tax. Another consideration is for the employee of a small business who has a SIMPLE plan. While you can roll money over from a SIMPLE IRA to a Traditional IRA, you have to wait until two years from the time you made contributions to the plan to avoid a 25% tax hit on the rollover. In both cases, you can benefit from the rollover, but by being aware and patient, you can save dollars in taxes that could multiply greatly in the future.

In the last issue of this series, we will look at something even better than deductions for reducing your taxes and a strategy to reduce the income side of the tax equation.



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