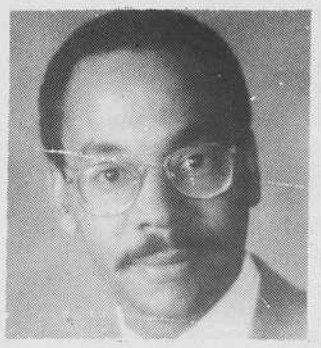
BUSINESS

Another reason for a long-term stock strategy

Financial Report

By Fred T. Snyder



Special to Sentinel-Voice

You have probably heard the many reasons why a long-term approach to buying and holding stocks can be beneficial: stock-price growth potential, dividend growth and reinvestment opportunities, stock split possibilities, etc.

Well, you can add one more reason to this list: the new long-term capital gains tax rates.

Thanks to the Taxpayer Relief Act of 1997, the long-term capital gains tax rate has been lowered from 28 percent to 20 percent for those of you in the 28 percent tax bracket or higher.

Previously, you had to hold onto your stock for longer than 12 months to qualify for the long-term capital gains rate, but that has been changed. The holding period to qualify for these new, lower rates has been extended to more than 18 months. These new holding periods and rates are effective for assets sold on or after July 29, 1997.

To illustrate the tax advantage you can receive, consider being in the 28 percent tax bracket. You purchase 100 shares of ABC stock on May 15, 1997 at $30 per share (a $3,000 investment). You hold the security more than 18 months.

If ABC's per-share price rises to $40 — your investment becomes valued at $4,000 — and you sell your ABC shares on Dec. 20, 1998, your capital gains tax would amount to $200 (20 percent of the $1,000 gain). Under the old law, it would have been $280 (28 percent of the $1,000 gain). That's a percentage difference of nearly 29 percent in terms of actual money paid to taxes! This, of course, is just an example and does not reflect the performance of any specific investment.

While it's nice to know you can receive a tax break when you sell under the new law, you should keep in mind you are still losing one-fifth of your capital gains to taxes. This new law may better serve you as a reminder of just how beneficial a long-term stock-investing approach can be.

Let's consider what would happen if you hold the stock for 20 years instead of 18 months: let's say your $3,000 investment in ABC stock grows at a 10 percent annual rate over a 20-year time period. By the end of this time frame, the value of your ABC stock would have accumulated to more than $20,183 without paying any taxes on the stock's price growth. This long-term approach allows you the benefits of compounding instead of taking shorter-term profits, buying more stock at possibly higher prices and taking several tax hits along the way.

The moral of the story is this: if your stocks still meet your primary investment objectives, you have a long-term time horizon, and the prospects for the company's stock remain positive, you may find that you are better off just holding onto that stock and giving it the chance to grow.

This article was provided by A.G. Edwards & Sons, Inc., Fred T. Snyder, investment broker.

"Relief" for small business owners

Special to Sentinel-Voice

(NAPS)—While much of the attention surrounding the Taxpayer Relief Act of 1997 has focused on tax relief for families and for investors with capital gains, the Act also includes a number of tax savings opportunities to help ease the burden on the self-employed and small-business owners. KPMG Peat Marwick LLP has identified some of the provisions with which these taxpayers will want to become familiar.

• Home Office Deductions: Up until now, the law made it difficult for a self-employed person to deduct the expenses of a home office used as the administrative management site for a business, when the taxpayer spends most of the time out of the office with clients. After 1998, home office expenses may be deductible in such circumstances.

• Exemption from Alternative Minimum Tax: Small businesses that are incorporated have been specifically excluded from the Alternative Minimum Tax for tax years after 1997. For this purpose, small businesses are generally defined as those with gross receipts under $5 million per year for a three-year period beginning after 1994.

• Family-Owned Business: When at least half the value of an estate is comprised of a family-owned business or a farm, it may be possible to exclude up to $1.3 million of the estate from transfer taxes.

• Increased Deductions for Health Insurance: The high cost of health insurance is scheduled to become a lot more manageable. A self-employed person can deduct 40 percent of the cost of health insurance in 1997. This percentage is gradually increased, with 100 percent being deductible by 2007.

• Electronic Payments: Many small businesses are now required to make their tax payments electronically through the electronic transfer program. Unfortunately, the IRS did a poor job communicating this requirement to small businesses and threatened to penalize ones that failed to comply. Now, the threat of penalties is removed until June 30, 1998.

• Estimated Tax Liability: A penalty often assessed against taxpayers is for failure to pay the proper amount of estimated tax. After 1997, no estimated payments are required, and no penalty will be imposed if one's tax liability (after withholding) is less than $1,000, rather than $500 under prior law.

"The government certainly included a number of items in the Taxpayer Relief Act to make small business owners breathe a little easier, but taxpayers have to take the time to understand where the savings can be found," says Robert Brown, Tax Partner of KPMG Peat Marwick LLP's National Tax Practice in Washington, D.C.

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