KRASNEY FINANCIAL PRESENTS:

FINANCIAL ARTICLE FOR THE MONTH OF MAY 2008

LOW BASIS STOCK & ESTATE PLANNING CAN COMBINE FOR CAPITAL GAINS SAVINGS

The federal income tax rate on long-term capital gains and qualified dividends is now *zero percent* for people in the 10 percent or 15 percent federal income tax rate brackets. If you have children, grandchildren, elderly parents or other loved ones in the bottom two tax brackets for 2008, you might want to give them appreciated stock or mutual fund shares. They can then, sell the investments and pay zero percent on the gains--assuming the shares have been held for more than one year. The recipient combines his or her holding period *after* the gift with your holding period *before* the gift for purposes of passing the more-than-one-year test.

Giving away stock that pays dividends can be another smart strategy. As long as the recipient is in the 10 or 15 percent rate bracket, as the dividends will be free from federal income tax. This profitable opportunity is available from 2008 through 2010.

Gift and Estate Tax Consequences. Give away stocks and mutual fund shares that: a) have appreciated, pay dividends, or both. That way, your gift recipient can take advantage of the zero percent tax rate. But there are other considerations. B) Under the annual federal gift tax exclusion privilege, you can give away assets worth up to $12,000 during 2008 to as many recipients as you want without any adverse gift or estate tax consequences. Gifts up to $12,000 won't reduce your $1 million federal gift tax exemption or your $2 million federal estate tax exemption. Even better, c) a married couple can jointly give away up to $24,000 without any adverse gift or estate tax consequences. If you're not worried about using up part of your gift and estate tax exemptions you can give away more.

Income Tax Consequences. The zero percent rate only applies to long-term capital gains and dividends received by those in the 10 or 15 percent federal tax brackets.

Can a Couple with $100,000 Salary Pay Zero Percent Capital Gains Tax?

Let's say your adult daughter is a married joint filer with two dependent children and the following information for the 2008 tax year.

$100,000 - salary *minus*
10,000 - 401(k) contribution at work
16,000 - itemized deductions
14,000 - 4 personal exemptions of $3,500
$60,000 - taxable income

So your daughter could have up to $5,100 of long-term capital gains and/or qualified dividends this year without owing federal tax. *Reason:* She and her spouse's total taxable income, including the gains and dividends, would be $65,100 or less. Therefore, their taxable income would be in the 15 percent bracket, which translates into a zero percent federal rate on long-term gains and dividends (they might owe state income tax). Any additional long-term gains and dividends would be taxed at the maximum 15 percent federal rate.

Answer to last week's riddle: Volcano

Conclusion. This article explains how to take advantage of zero percent federal income tax on 2008 long-term capital gains and qualified dividends. However, consider the Kiddie Tax rules if your gift recipient will be younger than age 24 on December 31, 2008. For those who will be 24 or older on that date, the Kiddie Tax rules do not apply, and they may benefit from the zero percent rate this year.

Please feel free to forward this article to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will contact them and ask for their permission to be added.

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