

Stocks, Bonds and Mutual Funds

Tax Info Sheet (2005)

CAPITAL GAINS AND LOSSES

Capital Gain Tax Rates

Capital Gain	Holding Period	Ordinary Tax Rate Bracket					
		10%	15%	25%	28%	33%	35%
Short-term	≤ 1 year	10%	15%	25%	28%	33%	35%
Long-term*	>1 year	5%	5%	15%	15%	15%	15%

* Special rates apply to capital gains from the sale of collectibles and depreciable real estate.

Capital losses offset capital gains and, to the extent there is an excess loss, up to \$3,000 (\$1,500 MFS) can be deducted against ordinary income each year. Any remaining loss is carried forward indefinitely to future tax years.

STOCKS AND MUTUAL FUNDS

Holding Period. The holding period for stocks traded on an established securities market and mutual fund shares begins on the day after the trade date and ends on the date sold (trade date).

Share Identification Methods (for Sales)

	FIFO	Specific Identification	Average Cost	
			Single Category	Double Category
Stocks	✓	✓	N/A	N/A
Mutual Funds	✓	✓	✓	✓

First-in, First-out (FIFO) Method. If the stock or securities have been acquired on different dates or at different prices, and the taxpayer does not or cannot identify the specific shares sold, they are considered to be sold in the order they were purchased.

Specific Identification Method. If the taxpayer specifically identifies the shares sold, the basis and holding period of those shares are used in computing the character (short-term or long-term) and amount of the gain or loss.

Single Category Method. Each share's basis is the total cost of all shares (in the account at the time of the sale) divided by the number of shares. To determine holding period, the shares disposed of are considered to be those acquired first (FIFO method).

Double Category Method. All shares of a particular fund are divided into two categories: short term and long term. Next, the average basis of each share is calculated for each category at the time of sale. The taxpayer can specify from which category shares are deemed to be sold.

WASH SALES

A wash sale occurs if a taxpayer sells or trades stock or securities at a loss and within 30 days before or after the sale, directly or indirectly:

- 1) Buys substantially identical stock or securities,
- 2) Acquires substantially identical stock or securities in a fully taxable trade or
- 3) Acquires a contract or option to buy substantially identical stock or securities.

If the wash sale rules apply, the loss is disallowed.

WORTHLESS SECURITIES

A taxpayer is allowed a capital loss for securities held as capital assets if the investment becomes worthless. The loss is allowed only in the year the stock or security becomes completely worthless; partial losses are not allowed. Worthless securities are treated as though they were sold on the last day of the tax year. This deemed date of sale is used to determine if the loss is long-term or short-term.

QUALIFIED DIVIDENDS

Dividend Tax Rates

Dividends	Holding Period	Ordinary Tax Rate Bracket					
		10%	15%	25%	28%	33%	35%
Qualified	> 60 days*	5%	5%	15%	15%	15%	15%
Other	≤ 60 days	10%	15%	25%	28%	33%	35%

* 90 days in the case of preferred dividends

Qualified dividends are dividends received from domestic corporations and qualified foreign corporations.

INTEREST INCOME

Table of Equivalent Taxable Yields

The following table can be used to find the tax-exempt yield that equals a certain taxable return. For example, a tax-exempt bond that yields 6.50% to a taxpayer with a marginal tax bracket of 25% is equal to a taxable bond with a yield of 8.67%.

Note: The table does not take state taxes into consideration.

Marginal Tax Rates for 2004 – 2010

	10%	15%	25%	28%	33%	35%
Tax-exempt Yields	Equivalent Taxable Yields					
1.00%	1.11%	1.18%	1.33%	1.39%	1.49%	1.54%
1.50%	1.67%	1.76%	2.00%	2.08%	2.24%	2.31%
2.00%	2.22%	2.35%	2.67%	2.78%	2.99%	3.08%
2.50%	2.78%	2.94%	3.33%	3.47%	3.73%	3.85%
3.00%	3.33%	3.53%	4.00%	4.17%	4.48%	4.62%
3.50%	3.89%	4.12%	4.67%	4.86%	5.22%	5.38%
4.00%	4.44%	4.71%	5.33%	5.56%	5.97%	6.15%
4.50%	5.00%	5.29%	6.00%	6.25%	6.72%	6.92%
5.00%	5.56%	5.88%	6.67%	6.94%	7.46%	7.69%
5.50%	6.11%	6.47%	7.33%	7.64%	8.21%	8.46%
6.00%	6.67%	7.06%	8.00%	8.33%	8.96%	9.23%
6.50%	7.22%	7.65%	8.67%	9.03%	9.70%	10.00%
7.00%	7.78%	8.24%	9.33%	9.72%	10.45%	10.77%

