Investment Strategies After the New Tax Act

COVERS ALL ASPECTS OF THE NEW TAX LAW THAT YOU MUST KNOW!

How to Profit from Tax Law Changes and Avoid New Tax Traps:

- New capital gains rules that offer big savings
- New tax benefits for real estate investors
- New rules affecting your closely-held business
- New higher rates on estates, gifts, and income—and how to reduce their impact

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INVESTMENT STRATEGIES AFTER THE NEW TAX ACT

To my wife, Shelly,
and my three sons:
Yoni, Dovi, and Daniel

DISCLAIMER

In the preparation of this book, effort has been made to offer current, correct, and clearly expressed information. Nonetheless, inadvertent errors can occur, and tax rules and regulations often change.

Further, the information in the text is intended to afford general guidelines on matters of interest to taxpayers. The application and impact of tax laws can vary widely from case to case, however, based on the specific or unique facts involved. Accordingly, the information in this book is not intended to serve as legal, accounting, or tax advice. Readers are encouraged to consult with professional advisers concerning specific matters before making any decision, and the author and publisher disclaim any responsibility for positions taken by taxpayers in their individual cases or for any misunderstanding on the part of readers. The information in this book is based on the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66), signed into law August 10, 1993. It was completed prior to the issuance of any regulations, rulings, or notices interpreting the new tax act. Therefore, current tax advice must be obtained prior to taking any actions based on the discussions herein.

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MARTIN M. SHENKMAN

Teaneck, New Jersey
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CONTENTS

PART ONE

INTRODUCTION

1 A Perspective on the Clinton Tax Act

THE CLINTON TAX ACT

Few investors will escape the effects of the Revenue Reconciliation Act of 1993, Title XIII of the Omnibus Budget Reconciliation Act (OBRA) 1993, passed by Congress on August 6, 1993 (the Clinton Tax Act). President Clinton's February 17, 1993, speech promised the most sweeping tax bill since the Tax Reform Act of 1986. The changes finally enacted in fact affect large corporations, closely held or smaller businesses, wealthy taxpayers, middle-income and low-income taxpayers, employees, investors of all types, retired persons, and other taxpayers.

The nature of the changes represent a dramatic departure from the Tax Reform Act of 1986 philosophy of simplification (maybe only by comparison with the Clinton Tax Act), lower rates (those are gone), and the goal of removing tax considerations from investment planning (only at your own peril). Tax rates are higher, incentives for certain types of investments will affect investment strategies, and complexity is back. With such dramatic changes, affecting almost every taxpayer, the 1993 tax bill is important for every investor to understand. The effects can be substantial. The changes in tax planning as compared with the years after the Tax Reform Act of 1986 and before 1993 are substantial. Great caution and diligence should be exercised.

This book explains how every investor will be affected by the Clinton Tax Act. It provides practical advice about revising your investments to profit from opportunities created and to minimize the cost of rate increases and other changes. Tips and traps are highlighted to help guide you through post-Clinton investing. Examples and other materials that you can use in your tax planning are included to help illustrate the new rules. A glossary will help you through the maze.

WHAT HAPPENED TO "TAX SIMPLIFICATION?"

The death knell has been sounded for the principles underlying the Tax Reform Act of 1986. Taxes will again assume their common historic role of stimulating investment; tax rate disparities will encourage tax-oriented investment strategies (although tax shelters may still be a dirty word, many investors will be looking for them); and the progressive tax rates have been enhanced so the more you make, the more you pay. Any thought of a flat tax or tax simplification is gone.

THEMES THAT AFFECTED TAX ACT

President Clinton stressed several principles underlying his tax package. Whether or not the Clinton Tax Act achieves the stated goals, these principles can help you anticipate and understand many of the tax changes described in later chapters.

Investment and Not Consumption

A major theme was to promote investment. Therefore, numerous consumption-oriented spending deductions have been further limited. For example, business entertainment deductions, club dues, and travel expenses for spouses have all been severely restricted. These changes highlight a trend that will have a much harsher effect on investors than many realize. The Clinton Tax Act, like several tax acts before it, has severely restricted a broad range of deductions. These restrictions often affect legitimate business and investment deductions that you have incurred and have paid for. The result is that the top tax rates you read about are really much worse than they sound because the deductions you can claim before applying those tax rates are so limited. Thus, not only have rates increased, but the income that will be taxed has increased as well. The result is a much higher actual tax bite.

The objective of stimulating investment utilizes job incentives, various tax deductions to encourage investment in hard assets (equipment and fixtures), and credits to encourage investment in special areas. Tax implications of investments have reassumed their historically important role.