

# VILLAGE VIEW

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Keeping informed about handling financial affairs in today's rapidly changing world has us all hopping. Failing to stay informed may leave us hopping mad if lost opportunities to save money later come to our attention.

With all the publicity about the tax law changes comes plenty of confusion for most people; important points that affect our future financial security may be overlooked easily, and small deviations from requirements can make efforts to save taxes in vain.

For example, since there's been some talk about imposing a system of withholding taxes on earned interest and dividends, some might believe they can avoid withholding taxes on future dividends by allowing their stocks to remain in the name of their brokerage firm or in a "street name," instead of having certificates issued and delivered to them.

In the case of those utility stocks offering investors an opportunity to re-invest dividends paid in company stock on a tax-free basis from 1982 through 1985, the law requires the certificates be registered in your name rather than that of the brokerage firm. Overlooking this requirement will result in the loss of the tax-free status of the stock purchased with the dividends. After the end of 1986, the stock, together with all stock purchased with re-invested dividends, may be sold, and the profits realized will be treated as long-term capital gains.

Investors must also be sure, before investing in a utility, that a qualifying dividend re-investment plan is available; not all utility companies qualify for this tax treatment. Giving your broker an opportunity to know your goals enables him to steer you along the right path.

In choosing your investments, be guided by your own personal circumstances. If you're single, re-invested dividends eligible for the tax break can equal no more than \$750 a year; a married couple, filing jointly, can claim twice that amount and still shelter this income. Your tax bracket affects the amount of savings you can realize, too; each person's situation differs.

Making money with money has become the name of the game. Investors now have a plethora of opportunities. As interest rates on treasury bills creep higher, rates on the "all savers" certificates rise. With an all savers certificate, of course, your money is locked up for a full year. Furthermore, there's a limit of \$2,000 income that can be sheltered. That's for a lifetime. Alternatively, you might look into tax-exempt bond funds where recent yields have been around 7%. Bonds can be sold at any time if you really need the money.

Long-term tax exempts should be considered if you can tie

your money up for many years; yields on these compare favorably with before-tax yields of corporate bonds. Long-term investments, it should be remembered, require putting money away and forgetting it for 20 or 30 years, but if Great Aunt Nell leaves you a windfall in her will you might consider socking that money away in a spot you can't disturb for that length of time. If inflation continues to erode the value of the dollar, you could be awfully glad you did because the accumulated earnings should leave you sitting pretty on the day you retire.

Keep in mind that you'd probably have managed to survive if Great Aunt Nell had died a pauper, so consider carefully all the pros and cons of spending it now or tucking it away for future needs that may be infinitely more pressing than present desires.

Other investment opportunities worth your consideration crop up on every side. If you believe the U.S. Forest Service, only eight years from now this country's demand for forest products will be 33% greater than the national supply. The timber industry looks like a good vehicle for building a nestegg for the future. You might look into companies that own timberland in southeastern states if you're attracted to the notion that money will grow on trees.

You might be giving thought to establishing an Individual Retirement Account (IRA); not a bad idea at any age as long as you're earning at least \$2,000 a year. If you aren't earning that much, but do earn some income, you may deposit 100% of what you do earn, if you can spare it. Only earned income counts, however. Should you need that income to live on now, give serious thought to borrowing the money to open your IRA account. That suggestion may sound like madness, but the figures reflect great advantages to those who borrow for this purpose. And the law permits it.

For instance, open an IRA and borrow the amount deposited; say \$1,000 each year. Assuming your account earns 12½% interest for ten years, and you borrow at 18% interest, you would accumulate a bigger fund for retirement than had you used current income and not borrowed the money. This is true because all the interest payments, as well as all the deposits to your account, are tax deductible. Again, your tax bracket, age to retirement, and the interest rates involved, are variables that effect specific results.

If you've invested in any of the high-interest-paying securities or Certificates of Deposit over the past few years, you're already aware that when interest rates are high, investing money to make money is a painless way to build capital. If you've been forced to borrow at 18% interest, you've been appalled at the speed with which your assets are depleted. The potential benefits of the IRAs are enormous. Anyone who can start an IRA at age 35, and lay aside only \$2,000 a year at 12% annual interest, will end up with over half-a-million dollars when he's 65. No one can foretell what that amount of money will purchase thirty years from now, or how much that amount of principal will generate in monthly income three decades from now, but since our experience in the past is that interest rates have always exceeded inflation rates, it may be safe to assume you will be better off with an IRA than without one. There's no hard and fast rule that insures interest rates will always outpace inflation, but based on the historical record, it's a

good bet.

If people have learned nothing else in the past few years, they've come to realize that money invested generates more money to invest. A thousand dollars earning 10% interest doubles in 7.2 years; earning 15% interest, it double in less than five years. When dollars accrue tax-free, the effect over thirty years is nothing less than electrifying.

One thing that all depositors to IRAs should keep in mind, however, is that when the time comes to make withdrawals from their funds, that income will be taxed. If current tax laws are still in effect (which is doubtful), withdrawals will be taxed at 20%. While not insignificant, that's probably a lower tax rate than you must now pay on the income if you don't invest it in an IRA. Knocking \$2,000 off current gross taxable income can put you in a lower tax bracket next year and every year you contribute to your IRA.

Bankers, investment brokers, and insurance agents are good sources of information about investing in IRAs. While it's true they all are selling the product and earning commissions for themselves on the sales, they all are willing to share their knowledge about this newest vehicle for future savings. Pick the brains of the salespeople, compare the plans offered, and start your own nestegg as soon as you can.

Long ago, "A penny saved is a penny earned," was a truism; while there may have been times when that didn't seem to be the case, the day has rolled around when it applies once more.