To: P&G Employees
From: John B. Cornetet, CPA, J.D., CFP 513-771-2444

Re: How The New Tax Law Has Shaken Up Retirement Planning

Your Retirement Plan is likely out of date.

The old methods of retirement planning have been changed because of the new tax laws. You have a fantastic opportunity to take advantage of the new rules when you retire. Imagine reducing your income taxes by 25% to 57%. If you created a retirement plan based upon the old law and you are retiring in the next several months, I urge you to review the plan in light of these new rules. Once you pull the trigger on the retirement plan, certain aspects are set in stone.

Under the new tax laws, the capital gain tax rate has been reduce from 20% to 15%. That is a reduction of 25%. Furthermore, the tax on dividend income has been reduced from 35% to 15%. That is a reduction of 57%.

The challenge is to recharacterize your retirement income from ordinary income to capital gains and dividends.

What comes out of an IRA or the PST? Answer - ORDINARY INCOME. Ordinary income is taxed at the highest rates of up to 35% in 2005.

Additionally, at age 70 1/2 the IRS forces you to pay tax on your IRA. If you have stocks, nobody forces you to sell and trigger the capital gain. At death, there is a step up in basis. You get reduction in rates, deferral and elimination of tax.

Then how do you recharacterize your retirement income? At retirement, you have a great opportunity to reshuffle your assets into investments that produce dividend income and capital gain income rather than ordinary income. The methods are all familiar:

1. Take P&G stock out as a lump sum distribution or a partial rollover. Keep P&G stock that is taxed on the cost basis. You thereafter get dividend income from the shares. Once rolled into an IRA, everything coming out will be ordinary income.

2. Consider the Frank Duke Method of paying no ordinary income tax on the shares and recharacterizing all the profit as capital gain income.

3. Use a Charitable Remainder Trust to diversify your P&G stock without capital gains tax. Remember a CRT allows you to diversify. The distributions from the CRT to you are dividends. The lost inheritance to your children (because the Trust goes to a charity at your death) can be made up with life insurance. The life insurance is paid for by the tax savings.

4. If your portfolio has bonds and stocks. Make sure the bonds are in the IRA and the stocks are in the taxable account. The piece that is outside of the IRA will be dividend income not interest. Interest income is taxed as ordinary income.

Please review these ideas with your advisor. If you do not have one, please feel free to call me.

John