



SMITH FINANCIAL GROUP

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Are Higher Taxes Ahead?

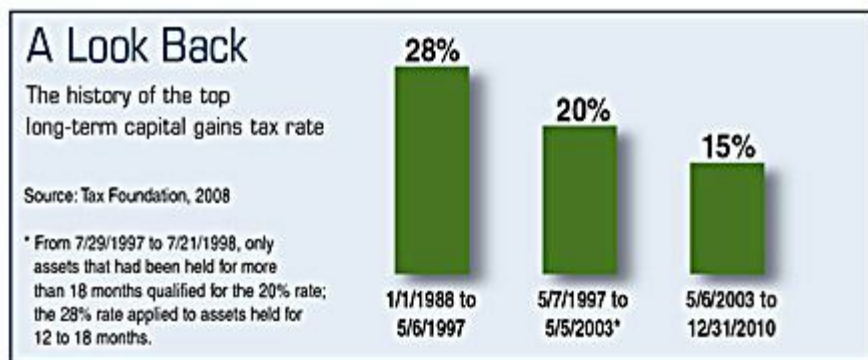
Evidence is mounting that high-income taxpayers will face higher taxes in the near future. Sweeping tax reforms enacted in 2001 and 2003 — which reduced tax rates on ordinary income, dividends, and capital gains for most U.S. taxpayers — are set to expire at the end of 2010, which means many Americans could face higher taxes starting in 2011.¹

And beginning in 2013, single filers with modified adjusted gross incomes exceeding \$200,000 (\$250,000 for joint filers) will face a 3.8% Medicare unearned income tax on net investment income and a 0.9% Medicare payroll tax on earned income exceeding these thresholds.²

If you are concerned about how these and other potential taxes could affect you, the following ideas may position your portfolio to help reduce the effects of anticipated tax increases.

Take Gains Wisely

Through 2010, long-term capital gains will be taxed at a relatively low 15% maximum tax rate. With that in mind, you may want to evaluate your holdings that have appreciated. Also, this may be an opportune time to rebalance your portfolio if it has drifted from its target asset allocation. Asset allocation does not guarantee against investment loss; it is a method used to help manage investment risk.



Invest Efficiently

If your mutual fund gains are causing unintended tax consequences, it might be time to consider mutual funds that strive to control tax ramifications, usually through lower turnover. Tax-efficient mutual funds may begin to attract wider interest if the capital gains tax rate climbs as expected.



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Opportunity to Convert

If you believe tax rates will continue to increase in the coming years, you may want to consider converting tax-deferred assets to a Roth IRA. Although there are income restrictions on contributing to a Roth IRA, there are no income restrictions on converting.

You must pay income taxes on tax-deferred assets converted to a Roth IRA, but qualified distributions of any future investment gains will be free of federal income tax.³ To qualify for a tax-free and penalty-free withdrawal of earnings (and assets converted to a Roth), Roth IRA distributions must meet the five-year holding requirement and take place after age 59½, or as a result of the owner's death, disability, or a first-time home purchase (\$10,000 lifetime maximum).

Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Understanding current tax rates is an important first step in understanding your tax situation. Before you take any specific action, be sure to consult with your tax professional.

1) CNNMoney, May 4, 2010

2) Reuters, March 22, 2010

3) Income taxes are payable in the year of the Roth IRA conversion. For 2010 conversions only, the taxes can be deferred until 2011 and 2012, with half payable each year.

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I look forward to talking with you soon!

Sincerely,

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