

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



- » Offsetting some of your investment losses
- » Rebalancing your portfolio
- » Investing in and withdrawing from retirement accounts tax-efficiently

- » Tax-advantaged ways to gift
- » Changes in the Alternative Minimum Tax
- » Relief for those who suffered damages in natural disasters this year

FALL
2008

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2008 Year-End Tax Planning

» Even in the best markets, it pays to review your complete financial picture and identify whether changes are needed. But the unprecedented events in the financial markets and ongoing volatility make that process particularly important this year. In addition, the recently passed Emergency Economic Stabilization Act—more commonly known as the Government Bailout—contains several tax breaks that could positively impact your 2008 tax situation if you take action before year-end.

In the following pages, you'll find information and updates on many important year-end planning topics, including those in the box above.

This special newsletter also includes a year-end wealth planning checklist that brings together on one handy page many of the strategies discussed in this newsletter.

Of course, we recommend that you speak with your tax advisor to better understand how any tax planning might affect your particular situation. As always, we can work with you and your tax advisor to help you implement any financial and tax planning strategies. ■

By the Smith Barney Division of Citigroup Global Markets Inc.

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Tax Update

Balancing Investment Losses and Gains

You may be wondering whether it's time to realize some of the losses and gains on your portfolio holdings. While no investment decision should be made on the basis of taxes alone, you should be aware of the current tax law, which may help you cover some of your losses.

» When you sell securities, losses can be used to offset capital gains. If your capital losses exceed your capital gains this year, you may deduct the remaining net loss up to \$3,000 from your ordinary income. Capital losses greater than \$3,000 may be carried over to future tax years, until fully utilized.

Keep in mind that in 2008, different rates could apply to long-term capital gains. Your tax professional can explain which rates apply in your situation.

With the presidential election in November, changes in tax legislation for 2009 could be up for vote. Be sure to contact your tax advisor before year-end to review any possible tax law changes that might affect your year-end planning.

USING THE ZERO CAPITAL GAINS TAX

Unemployment claims have jumped to their highest level in seven years due to the impact of a slowing economy and Hurricanes Ike and Gustav. If you suddenly find yourself out of work, or if your

compensation has been reduced, you could be in a much lower tax bracket this year. If your 2008 adjusted gross income is below \$32,550 (single) or \$65,100 (married filing jointly), you may be eligible for the new 0% long-term capital gains rate that applies to the lowest two tax brackets. If so, consider cashing in on some of the long-term gains you might have on your investments, particularly if you own low-basis company stock you'd like to diversify. If you are retired with a low income, you might also qualify for the 0% long-term capital gains rate.

If you are providing financial support for your parents who may be in the bottom tax brackets, consider gifting appreciated securities instead of cash. Your parents can then sell these securities without capital gains. For 2008, you may gift up to \$12,000 a year per recipient without paying gift tax; married couples can give up to \$24,000 a year per recipient.

WASH SALE RULE

Should you decide to sell depreciated securities, be aware of the wash sale rule. A wash sale occurs when you sell stock at a loss and buy "substantially identical" replacement stock (including options on the stock) within 30 days before or after the sale. You may not deduct losses from a wash sale.

2008 Capital Gains Tax Rates

Type of Asset	Holding Period	Tax Rate
Short-term capital gains	One year or less	Ordinary income tax rates up to 35%
Long-term capital gains	More than one year	0% for taxpayers in the 10% and 15% tax brackets (starting in 2008)
		15% for taxpayers in the 25%, 28%, 33% and 35% tax brackets
Collectibles	One year or less	Short-term tax rates up to 35%
Collectibles	More than one year	28%
Real estate main home	One year or less	Short-term tax rates
Real estate main home	More than one year	Long-term tax rates taxed at 5% or 15% after any exclusion amount

These rates may be subject to adjustments. Check with your tax advisor for the capital gains tax rates that apply in your situation.

“Several tax deductions scheduled to expire were recently extended as part of the Emergency Economic Stabilization legislation that passed on October 3, 2008. Ask your tax advisor if you qualify for any deductions for state and local sales taxes, qualified tuition payments, real estate taxes and other expenses that may affect your 2008 tax situation.”

Wash Sale Rule:

Key Dates

Friday, Nov. 28, 2008: Last day to “double up” for 2008. Doubling up on a security allows you to recognize a loss without missing any potential appreciation during the wash sale period. However, doubling up would increase your risk exposure in that security.

Wednesday, Dec. 31, 2008: Last day you can sell a security this year for a loss.

Monday, Feb. 2, 2009: If you sold a security for a loss on Dec. 31, 2008, you can avoid the wash sale rules if you wait until Feb. 2, 2009 or later to repurchase the same or substantially similar security.

calculate your standard income tax or adding back certain tax preferences. You will then owe whichever tax is higher—the AMT or your “normal” amount. Taxpayers with children, deductible expenses and those who live in high-tax states are usually subject to the higher AMT rates.

A certain amount of income is exempt from the AMT. The AMT exemption amounts are increased in 2008, meaning fewer taxpayers may be subject to the (AMT) than last year. The exemption amounts for 2008 are:

- » \$46,200 for single and head of household filers.
- » \$69,950 for married people filing jointly.
- » \$34,975 for married couples filing separately.

legislation that passed on Oct. 3, 2008. Ask your tax advisor if you qualify for any deductions for state and local sales taxes, qualified tuition payments, real estate taxes and other expenses that may affect your 2008 tax situation. In some cases, these deductions may be taken even if you don’t itemize. Ask if any prepayments of these expenses for 2009 before year-end might be advantageous.

DISASTER RELIEF

The new tax law provides tax relief to victims in many areas of the U.S. who suffered losses this year in the storms, tornados and flooding in the Midwest and Hurricane Ike in Texas. The tax incentives are similar to those extended to individuals and businesses affected by Hurricane Katrina. Be sure to consult with a tax professional if you were impacted by any of these disasters to determine if you are eligible for benefits. ■

AMT TAX RATES

The Alternative Minimum Tax (AMT) is a concurrent tax system that is calculated by disallowing some of the exemptions, deductions and credits that you use to

EXTENSION OF INDIVIDUAL DEDUCTIONS FOR 2008

Several tax deductions scheduled to expire were recently extended as part of the Emergency Economic Stabilization

Retirement

Planning—and Saving—Amid Uncertainty

If you're working, the current market may have you concerned about the value of your retirement savings or the security of your job.

» In this market, your retirement plan contributions could be buying a larger number of shares in lower-priced investments, so keep saving. Here's how to build up your retirement funds:

Fully fund your employer retirement accounts by year-end. The 401(k) contribution limit for 2008 is \$15,500—\$20,500 for participants age 50 or older by year's end. Contributions are made on a pretax basis, which will lower your taxable income for 2008.

Take advantage of company matches. If your company matches your contributions, be sure to at least fund up to the amount of the match so that you can take advantage of this “free” benefit.

Open and fund an IRA. Although you may not get a tax deduction, contributing to the IRA allows you to generate income on a tax-deferred basis. This can be done even if you participate in your company's retirement plan. The maximum you may contribute in 2008 is \$5,000, or \$6,000 if you are age 50 or older.

If you are retired, review your cash flow. We can help you figure out if you're still on track to enjoy the retirement lifestyle you envision, particularly in light of recent market performance. Once we get an accurate view of your expenses, we'll be in a better position to know where you stand financially and how we might improve that standing. Let us know if you would like a complimentary analysis that

estimates your likely annual retirement income and whether it may be sufficient to support you.

Take your Required Minimum Distribution (RMD). Once you reach age 70½, you must withdraw a certain amount from your IRA or your company's retirement plan. Failure to take your RMD carries a heavy tax penalty. If you turned 70½ in 2008, you may postpone your first RMD to April 1, 2009—but that will result in two taxable distributions next year. Ask us about automating your RMDs, so you don't have to worry every year about forgetting to take them. If you are age 70½ or older and taking RMDs from a Traditional IRA, you have an opportunity to donate up to \$100,000 from your IRA tax-free. To qualify for tax-free treatment in 2008, the funds must be transferred directly from your IRA to a qualified charity by December 31, 2008, so act now to allow us to arrange for this transfer.

Consider a Roth IRA Conversion (it may be less costly now). If your Traditional IRA has declined in value, you may want to think about converting these assets to a Roth IRA. You'll pay current income taxes this year, but on the lower value of the account. If your adjusted gross income for 2008 doesn't exceed \$100,000, you may convert your Traditional IRA to a Roth IRA. Also, if you are leaving your current job or separating from service, speak with us about the advantages of converting your 401(k) or other company retirement plan to a Roth IRA.

» Withdrawals of the converted amount are penalty-free five years after the conversion.

» Earnings on the converted amount can be withdrawn tax- and penalty-free at 59½, five years after the conversion.

» Beneficiaries only pay taxes on earnings they withdraw within five years from the conversion date of the IRA assets. All withdrawals are penalty-free for beneficiaries.

Tax Tips: You can cherry-pick the most depressed assets in your Traditional IRA to convert to a Roth IRA, thus reducing the amount of taxes due immediately. Also, if you converted your retirement assets to a Roth IRA recently and these assets have lost value in the current market, you can “recharacterize” your Roth conversion so you are not paying taxes on the phantom value of these investments. You have until your tax-filing deadline, plus extensions, to recharacterize a Roth conversion that occurred in 2008. If your IRA is held at Smith Barney, we can help you through this process.

Keep in Mind: Starting in 2010, anyone with a Traditional IRA can convert the balance or part of the balance to a Roth IRA regardless of income. Also, the tax liability for this conversion can be spread over 2011 and 2012. In the meantime, you should contribute fully to your Traditional IRA to build up the balance as much as possible. ■

Business Owners

Reevaluating Your Company's Retirement Plan

If you are a business owner whose company offers a retirement plan, many changes have occurred in the management of these plans—and more changes are in the offing.

» You should contact your ERISA lawyer or retirement plan administrator to make sure you are in compliance in all areas, especially with regard to fiduciary responsibilities, automatic enrollments and other changes brought about by recent legislation.

STRATEGIES FOR BUSINESS OWNERS

Open a retirement plan by year-end. If you do not have a company retirement plan, call us to get one started. To make

a contribution for 2008, the plan has to be established by Dec. 31. We can provide information on the options available to you.

Evaluate your current retirement plan.

We can prepare a complimentary Retirement Plan Evaluation that will assess your current program and determine the ideal type of plan for your business, based on your personal and business goals.

Explore retirement plan tax credits. If you have at least one non-highly compensated employee (earning no more than \$105,000 in 2008) and no more than 100 employees, you can take a tax credit up to \$500 a year for the first three years to defray retirement plan start-up costs. You may also deduct additional plan expenses as business expenses. Your tax advisor can offer more information on how this provision may affect your situation.

Explore specialized tax credits. The Emergency Economic Stabilization legislation passed in October extended for businesses various specialized tax credits and benefits that were scheduled to expire. Talk with your tax advisor to find out if any of these specific tax situations apply to your business and what action you may have to take before year-end. ■

Contribution Limits for 2008

Type of Plan	Under Age 50	Age 50 or Older
Traditional/Roth IRA	\$5,000	\$6,000
401(k)/403(b)/457/SEP*	\$15,500	\$20,500
SIMPLE	\$10,500	\$13,000

*Only SEP plans established before 1997 may allow employees to make pretax contributions.

Giving

Gifts to Family and Charity

Considering the reduced market value of many investments, you may be wondering whether to gift to family and charity this year.

» We can analyze your portfolio value and cash flow to assess whether a pullback is necessary. If gifting is still recommended, you need to do so by year-end.

» **Gifts to individuals.** Gifts to family or other individuals are not income-tax deductible, but can reduce the value of your estate for estate tax purposes. You can give \$12,000 per recipient in 2008 without incurring federal gift tax. Spouses together may donate \$24,000, in addition to any direct tuition or medical payments made on behalf of another person. You may gift to a child's 529 College Savings Plan, which offer flexibility, control, multiple investment options and federal tax-free withdrawals for qualified college expenses. Contact us for information on the 529 plans

available through Smith Barney, or on the plan offered by your state (some states offer state tax deductions on 529 contributions).

» **Gifts to charity.** Gifts to charity may provide a potential income tax deduction. In addition, if you have appreciated stock, you may donate it to charity without paying capital gains tax. Consider a donor-advised fund if you donate to multiple charities. Donations to the fund are professionally managed, and you will have one record of your donations, rather than tracking multiple receipts for tax purposes. Ask us about Citi® GIFT, which allows you to donate this year for a potential 2008 tax deduction, then decide later how to distribute the funds.

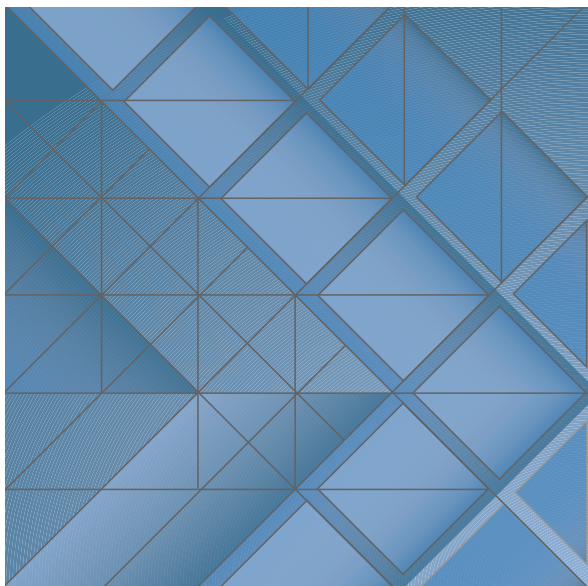
» **Expansion of tax benefits for higher education expenses.** Recent legislation extended the deduction for higher education tuition until Dec. 31, 2009 for those who meet income levels. Also, parents in Midwestern disaster areas who are paying for college expenses may benefit from enhancements to government-sponsored programs, such as the Hope Scholarship and Lifetime Learning Credits, which could reduce their tax liability. The new legislation increased dollar amounts on these education credits and expanded the definition of qualified expenses. Talk to your tax advisor about determining whether there are any expenses you must pay by year-end to capture the full benefit of these credits. ■

Year-End Tax Planning Checklist

» Planning strategies to discuss with your tax professional and Financial Advisor before year-end:

- » Have your tax advisor estimate your adjusted gross income and tax rate and determine now if you have an AMT liability for 2008. If so, you may consider accelerating taxable income and/or deferring deductions.
- » Ask your Financial Advisor for help rebalancing your portfolio to remain in line with your goals, time horizon and risk tolerance.
- » Ask your Financial Advisor about matching up the sales of any securities that have losses to potentially offset some of the capital gains you may owe, and how to comply with wash sale rules.
- » Fully fund your IRA and company retirement accounts as soon as possible.
- » If you are age 70½ or older, don't forget about taking a required minimum distribution (RMD) from your Traditional, SEP or SIMPLE IRA for 2008. (If you have these retirement accounts at Smith Barney, your IRA statement will show the amount you need to withdraw.)
- » If you are age 70½ or older and would like to make a tax-free donation of up to \$100,000 from your Traditional or Roth IRA to your favorite qualified charity, act now so we can make the transfer before year-end.
- » If you want to use appreciated stock to make a charitable donation, do so by year-end to qualify for a potential income tax deduction. You can also arrange to contribute appreciated stock to a donor-advised fund.
- » Talk to your Financial Advisor about gifting up to \$12,000 per child to a 529 College Savings Plan. If you have UGMA or UTMA accounts set up for a child, find out how you can transfer these funds to a 529 account for greater tax benefits.
- » If you own a business, establish a qualified retirement plan by Dec. 31, 2008 to be eligible for a contribution for this year.
- » Talk with your Financial Advisor about developing a borrowing plan to cover your tax obligations—one that helps to unlock value in the assets you own, without liquidating those assets or using cash.
- » Ask your tax advisor about deductible expenses for 2009 and whether it would be advantageous for you to prepay these in 2008.
- » Complete any gift transfers by year-end to reduce your estate—and to feel good. You are entitled to transfer up to \$12,000 per recipient in 2008 without incurring any federal gift tax, while spouses together may donate up to \$24,000 per recipient. These annual gifts may be in addition to any direct tuition or medical payments made on behalf of another person.
- » Use any balance in your Flexible Spending Account (FSA) for qualified medical expenses for 2008. When estimating your contributions for next year, consider the increasing costs of uncovered medical expenses. Average premium and out-of-pocket costs for health coverage are projected to increase by nearly 9% in 2009, to \$3,826 per year¹. ■

¹Data: Hewitt Associates, 2008



Tomorrow Starts Today

There is a time for year-end and future planning.

NOW WOULD BE GOOD.

As the year ends, what better time to review, evaluate, even begin a new financial plan if necessary. Come in for a year-end review where we can discuss:

- » How to prepare for the year-end
- » Preparing your current balance sheet and income statement
- » How to pass family assets tax efficiently
- » Proper titlement of securities for estate tax exemptions
- » Your family's needs and goals

Contact us today for your annual portfolio review.

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