MAKE
The 10 best executive health centers; Facebook's bottom line; how Lululemon made yoga hot.

GROW
10 must-ask questions for your financial advisor; Qatar's Persian Gulf success story.

LIVE
What to know before chartering a yacht; how to buy the world's most exclusive tickets.

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

THE NEW RULES OF INVESTMENT

THE HEDGE FUND FRONTIER

INSIDE THE BIGGEST PRIVATE EQUITY FIRMS

WORTH.COM

07

VOLUME 19 | EDITION 04

Sterling Investment Advisors Ltd.
Timothy E. Flatley, ChFC®, President

"What strategies will help me prepare for tax increases?"

By Timothy E. Flatley

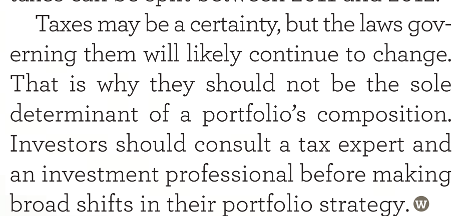
The combination of impending healthcare reform, the vast amount of money injected into the economy, the swelling national deficit, and expiring tax cuts will likely drive tax rates higher in the near future. When the tax cuts enacted in 2001 and 2003 expire at the end of 2010, capital gains rates will increase from 15 percent to 20 percent. An additional 3.8 percent increase on investment income, including capital gains, is slated to arrive in 2013 as part of the healthcare reform laws. The new tax initiatives are primarily aimed toward households with incomes of $250,000 or more. With this in mind, investors would be wise to consider strategies in nonqualified accounts to combat their escalating taxes.

Realizing capital gains now, at reduced tax rates, is a plan worth examining. Many investors are hesitant to sell long-term holdings due to their relatively low cost basis. However, locking in gains at the lower rate may make sense, particularly if the investor has an unfavorable outlook for a security or if it no longer complements the portfolio's objectives.

Investors can also use tax-efficient vehicles to minimize their tax liability. Certain mutual funds and exchange traded funds seek to limit capital gains distributions through low turnover of the underlying assets. Municipal bonds, which are exempt from federal tax and may be exempt from state and local taxes, are another popular holding for those sensitive to taxes. Of course, the account holder must still carefully evaluate the suitability and quality of these investments. The beneficial tax impact may be inconsequential for a poorly performing bond or fund.

Securities should not necessarily be jettisoned from asset allocations simply because they typically generate substantial income via dividends, interest and capital gains distributions. High-yield investments play an effective role in countless portfolios and can be held in tax-deferred retirement accounts. While the income generated will eventually be taxed when distributions begin, many investors anticipate being in a lower tax bracket upon retirement.

The expected tax rate increases, coupled with recent rule changes, have made Roth IRA conversions another appealing strategy. The future tax-free growth and distributions may significantly outweigh the impact of the income taxes payable as a result of the conversion. In addition, the income taxes can be split between 2011 and 2012.



Taxes may be a certainty, but the laws governing them will likely continue to change. That is why they should not be the sole determinant of a portfolio's composition. Investors should consult a tax expert and an investment professional before making broad shifts in their portfolio strategy.

TAX MANAGEMENT STRATEGIES

01 Consider tax-preferred investments (dividend income and capital gain over ordinary income and gain)

02 Utilize investments that produce tax-free income

03 Evaluate the merit of realizing gains before the tax rates spike

04 Maximize qualified plan contributions

05 Check if your company allows for nonqualified deferred compensation contributions

06 Gift to family members in lower brackets

07 Consider a Roth IRA conversion

Securities offered through registered representatives of Cambridge Investment Research Inc., a broker/dealer, member FINRA/SIPC. Investment advisor representative, Sterling Investment Advisors Ltd., a registered investment advisor. Sterling Investment Advisors and Cambridge are not affiliated.

The Delaware Valley region is defined as the following counties: Pennsylvania—Berks, Bucks, Chester, Delaware, Montgomery, Philadelphia; Delaware—New Castle; Maryland—Cecil; and New Jersey—Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, Salem.

Timothy E. Flatley, ChFC®
President

Sterling Investment Advisors Ltd.
1055 Westlakes Drive
Suite 150
Berwyn, PA 19312
Tel: 610.560.0400

Email: flatleyt@sterling-advisors.com
www.sterling-advisors.com

REPRINTED FROM

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

About the Worth Leading Wealth Advisors

The Worth Leading Wealth Advisor admittance process is based on, but not limited to, the Advisor's experience, education, fiduciary status, compliance record, wealth management services, methods of compensation and scope of current business. In order to be considered for the Worth Leading Wealth Advisors Program, financial professionals must be willing to provide complete and full disclosure to investors so that independent analysts from Paladin Registry can thoroughly screen and evaluate their credentials, ethics and business practices. Once admitted, Advisors pay a fee to be included. Investors and potential investors are solely responsible for the decision to select particular Advisors.