Thomas Jay Barrett, Jr.
Jay Allan McCormick

Whatever your thoughts might be regarding the 2010 Health Care Act, its impact on the investment environment will be far reaching. The centerpiece of the new health reform law is the mandate for most U.S. residents to obtain health insurance. The new health reform law is paid for in many ways, including taxes, penalties and tougher rules for tax deductions. The new law will alter our clients' investment outlooks. Helm's goal, as always, is to invest in tax-favored directions maximizing returns by legally deferring and avoiding taxes, both current and future.

High income taxpayers will be subject to both income tax increases and a new levy on investments. The Medicare payroll tax is the primary means of financing Medicare. Currently, the employee part of payroll taxes totals 7.65% including the 1.45% Medicare tax. The social security part is capped at 6.2% on wages of $106,800 (for 2010). The new Medicare Tax is levied on all wages and jumps to 2.35% for married couples making more than $250,000. Beginning in 2013, this new Medicare tax also applies to interest, dividends, capital gains and royalties above that $250,000 threshold. So if a couple has $200,000 in W-2 income and $100,000 of interest and capital gains, $50,000 is taxed at the normal tax rates plus 2.35%.

Because the tax cuts of 2001 and 2003 are set to expire at the end of this year, federal income taxes likely will rise. The tax rate on long-term capital gains is set to go up next year to 20% from 15% for households earning more than $250,000 annually. The federal estate tax, now at zero because it expired January 1, may be reinstated next year at a maximum rate of 55%. All of this is amazing, but true, and being forewarned is to be forearmed. For example, it makes a lot of sense to recognize capital gains this year; the resulting tax is 25% cheaper than it will be in 2011. For those with charitable inclinations, donations, particularly appreciated stock donations, are more tax effective in 2012 and 2013. For those that can stomach paying taxes now and can see a benefit from a Roth conversion, 2010 is the time to pull the trigger, and they can spread the Roth tax bill between their 2011 and 2012 returns.

Tax-efficient mutual funds or Exchange Traded Funds (favored by Helm) with little or no yearend capital gain distributions and resulting tax burden will become even more popular as investment vehicles. In similar fashion, master limited partnerships (MLPs), another favorite, will become more desirable because their cash distributions are sheltered from increased taxes since net investment income is reduced by allocable deductions.

Rebalancing your investment accounts to your targeted asset allocation ratio at least annually also has a dramatic effect by reducing total recognized gains every year. Again, rebalancing is a key Helm asset management philosophy. For those who refuse to recognize capital gains for whatever reason (no one ever went broke paying capital gains taxes), the old stand-by of keeping it, dying and getting a step-up in basis in your estate from 2011 on, is once again viable. But you need to compare that advantage with the disadvantage of paying estate taxes. You can also give appreciated assets to grandchildren or other heirs who can sell with little or no other taxable income.

Thanks to health care reform and other federal initiatives, managing money to reduce tax exposure is more important than it has been in years!

1600 Broadway, Suite 930 • Denver, Colorado 80202 • Phone: (303) 861-4835 • Fax: (303) 813-1561
E-mail: tbarrett@helminvest.com or jmccormick@helminvest.com