EYE ON MONEY

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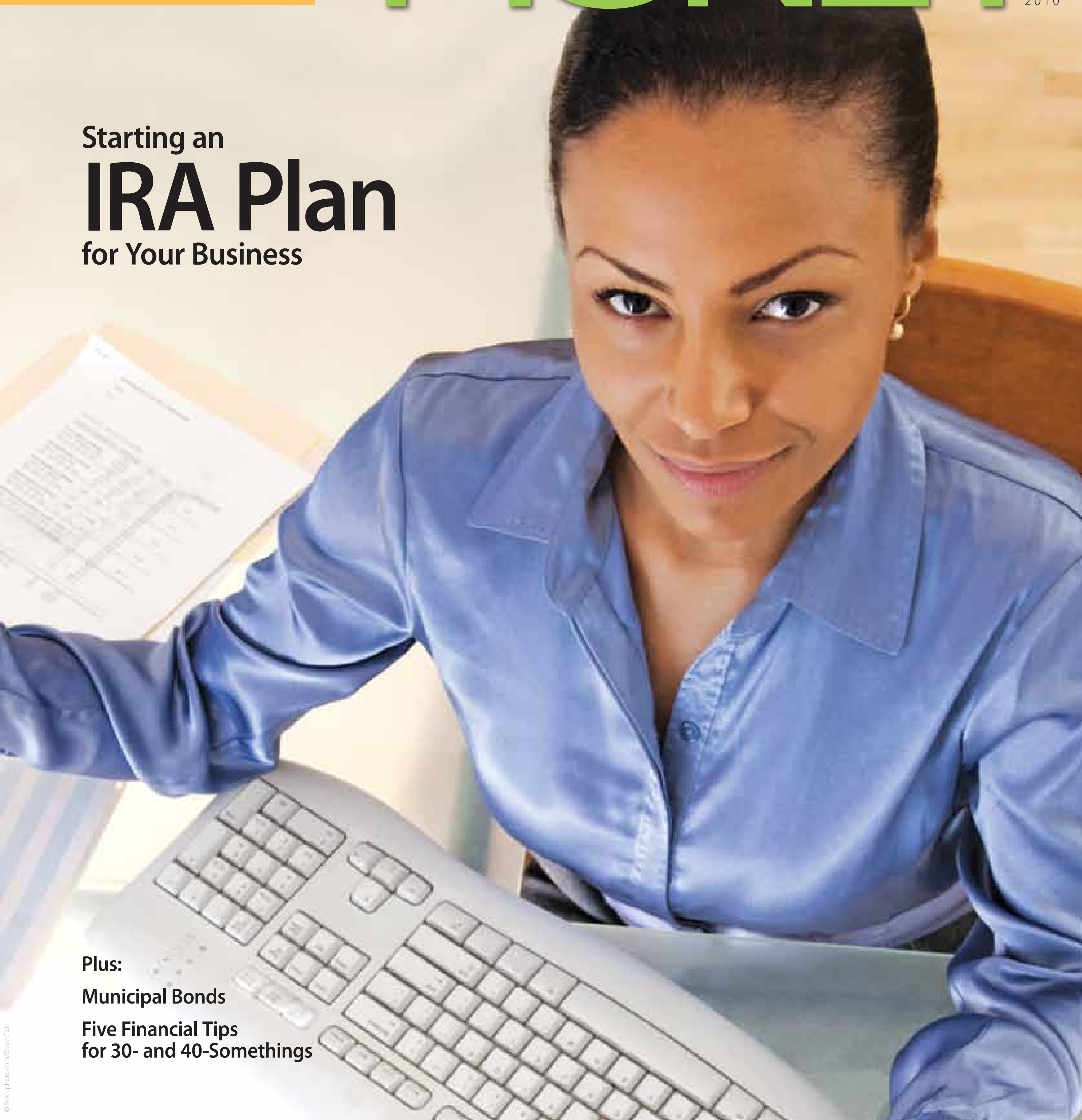

Starting an

IRA Plan

for Your Business

Plus:

Municipal Bonds

Five Financial Tips for 30- and 40-Somethings

Prepare for Natural Disasters While the Sun Still Shines

Steps You Can Take to Help Weather a Storm Financially

NO ONE WANTS to learn after a natural disaster that they do not have enough insurance coverage or the documents to help speed up a claim. The time to determine this is before a disasters happens. Taking these few steps while the sun still shines can help prevent a natural disaster from turning into a financial disaster.

■ **Review your insurance coverage.** You need enough insurance to rebuild your home and replace your personal belongings, according to the Insurance Information Institute. If you have made major alterations to your home or have made significant purchases, notify your insurance agent so that the increased value is reflected in your policy.

■ **Consider purchasing flood insurance.** The odds of experiencing a flood during the life of a 30-year mortgage are 6 times greater than experiencing a fire, according to FEMA. Yet most homeowners policies do not cover losses caused by flooding. For this type of coverage, you'll generally need flood insurance.

■ **Create a home inventory.** Create a room-by-room inventory of your home, including receipts, serial numbers, photos, and videos, that can be used to expedite insurance claims and substantiate tax deductions for casualty losses.

■ **Assemble your important documents.** In case you need to evacuate, be ready to grab your insurance policies, contact info for your insurance agent, wills, deeds, titles, birth certificates, marriage certificates, passports, and home inventory. ■

inside

UP FRONT

2 Prepare for Natural Disasters While the Sun Still Shines

3 3 Reasons to Convert to a Roth IRA in 2010

4 Relocating for Work Reasons May Be Tax Deductible

4 Your Job Search Expenses May Be Tax Deductible

5 The Tax Impact of Renting Out Your Home

FEATURES

6 Starting an IRA Plan for Your Business
An introduction to SIMPLE, SEP, and payroll deduction IRAs.

10 5 Financial Tips for 30- and 40-Somethings
Tips to help you move towards your financial goals and protect your financial security.

14 Municipal Bonds
An intro to this tax-advantaged investment choice.

FYI

16 Cotswolds: Britain's Most Charming Corner

18 Open Studios

19 The New Tampa Museum of Art

19 Quiz: Classic TV

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3 Reasons to Convert to a Roth IRA in 2010

Converting a Traditional IRA to a Roth IRA can be a smart move for many people. Granted, you will have to pay income tax on the savings that you convert, but after that you will not have to pay another cent in income taxes on those savings or their earnings for as long as you live, provided you follow the rules. Nor will your heirs owe a cent in income taxes if you leave the account to them.

If you are considering converting to a Roth IRA, 2010 may be the year to make your move. Here are three reasons why.

Did you know?

Accounts other than Traditional IRAs can also be converted to Roth IRAs. Generally, you can roll over savings from an employer-sponsored retirement plan, such as a 401(k) plan, to a Roth IRA after you leave a job or retire.

1 **Income tax rates are still near historic lows.** When you convert savings in a tax-deferred retirement account to a Roth IRA, you must pay income tax on the parts of your savings that were not taxed previously, such as your pre-tax contributions and investment earnings. With federal income tax rates potentially increasing in 2011, your tax bill may be less if you convert and pay the tax in 2010 rather than in later years.

2 **You have extra time to come up with the money to pay the tax.** If you convert or roll over to a Roth IRA in 2010, you get extra time to pay the tax on the converted amount. Instead of the tax being due with your tax return for 2010, a special rule that applies only to 2010 conversions gives you the option to pay the tax in equal installments with your 2011 and 2012 tax returns. And considering that it is generally a good idea to pay the tax bill with funds from outside of the account you are converting (so you don't shortchange the amount going into the Roth IRA), some extra time to come up with the funds may come in handy.

Perhaps you are thinking, "Sure, it gives me more time to come up with the tax money, but I'll end up paying more tax overall if income tax rates increase in 2011!" Maybe, maybe not. Recognizing all of the income from the conversion in 2010 may cause you to bump up into a higher income tax bracket. Splitting it between 2011 and 2012 may prevent a bump up and may result in a lower tax bill overall. You need to run the numbers (or, better yet, ask your tax advisor to run the numbers) to determine whether you are better off paying the entire tax with your 2010 tax return or splitting it between your 2011 and 2012 returns.

3 **Lower account values.** If the value of your tax-deferred account has not fully recovered from market volatility in recent years, converting now and paying tax on the account's reduced value may result in a lower tax bill than converting after the value of the account potentially rebounds. ■

If you have an IRA or a retirement account with a former employer, please talk to your financial advisor. Your advisor can help you assess whether converting your savings to a Roth IRA in 2010 makes sense for you.

Moving?

Relocating for work reasons may be tax deductible.

If you are relocating for employment reasons, you may be able to deduct certain moving expenses, such as packing and transporting your household goods, shipping your car, and traveling (transportation and lodging) to your new home. A move across town will not qualify for the deduction. To deduct moving expenses, your move generally must pass these tests:

- Your new main job location must be at least 50 miles farther from your old home than your old job location was. In other words, remaining in your old home would have added 50 or more miles to your commute.
- If you are an employee, you generally must work full time for at least 39 weeks during the first 12 months after you arrive in the new area. If you are self-employed, you generally must work full time for at least 39 weeks during the first 12 months and for a total of 78 weeks during the first 24 months after you arrive in the new area.

Please consult your tax advisor about whether your moving expenses are tax deductible. ■

Looking?

Your job search expenses may be tax deductible.

If you are searching for a new job in your present occupation, keep track of your job search expenses. You may be able to deduct them on your federal income tax return if you itemize deductions. For example, you may be able to deduct:

- Employment agency fees
- The cost of preparing and mailing your resume
- Travel expenses related to looking for a new job

To deduct expenses, you must be looking for a job in your present occupation. Expenses related to looking for a job in a new occupation or your first job cannot be claimed. You also cannot claim the deduction if there was a substantial break between your last job and the time you begin to look for a new job.

Even if your job search meets the criteria, there is one more hurdle that you must go over before you can deduct your expenses. Job search expenses fall into a category known as "miscellaneous itemized deductions". Most miscellaneous deductions, including job search expenses, are subject to a 2% limit. This means you can only claim the amount of your total miscellaneous expenses that exceed 2% of your adjusted gross income. ■

Can't sell?

The tax impact of renting out your home.

With home prices in many parts of the country still below where they were just a few years ago, some would-be home sellers are opting to rent out their homes until the housing market recovers rather than sell at today's lower prices. If you are considering renting out your home, be sure to factor taxes into your decision. The tax rules regarding a home that you use as your main home and a home that you rent out differ greatly and are rather complex. **Please seek advice from your tax advisor about your situation.** ■

	Main Home	Home Changed To Rental Use
Rental Income	Since you are not renting out your home, there is no rental income.	The rent you receive is added to your gross income for tax purposes.
Deductible Expenses	You can generally deduct mortgage interest, property taxes, and casualty losses.	You can deduct a much wider range of expenses, which can help offset the rental income you receive. Deductible expenses generally include mortgage interest, property taxes, casualty losses, maintenance, insurance, utilities, and depreciation. You can also deduct expenses related to renting your home, such as advertising, amounts paid to property managers, and travel expenses incurred when traveling to collect rents or maintain the property.
Selling at a Loss	You cannot deduct a loss on the sale of a home that you acquired for use as your home and that you used as your home until the time of sale.	You can deduct a loss on the sale of a home that you converted to a rental property and used as rental property at the time of the sale. However, you figure the loss using the lesser of the home's adjusted basis or fair market value at the time you converted it to a rental. So, if you paid $500,000 for the home, but its fair market value was $400,000 when you changed it to a rental, you figure the loss using $400,000.
Selling at a Gain	You can generally exclude up to $250,000 ($500,000 if married filing jointly) of the gain on the sale of a main home if: 1. you owned the home for at least two years, 2. you lived in the home as your main residence for at least two of the five years preceding the sale date, 3. and you have not excluded gain from the sale of another home in the past two years. Your exclusion may be limited if you used the home as rental property *before* it was your main home.	In general, the full amount of the gain on the sale of rental property must be recognized. However, you may be able to exclude part of the gain if you meet the three requirements listed at left. So, if you expect to sell what was once your main home at a gain, selling within three years of converting it to rental property will generally allow you to exclude up to $250,000 ($500,000 if married filing jointly) of the gain. (FYI: You cannot exclude the part of the gain equal to the depreciation you claimed or could have claimed on the rental property.)

Starting an IRA Plan
for Your Business

SIMPLE, SEP & Payroll Deduction IRAs

Starting a retirement plan for your business can be a positive move in so many ways. It says to your employees that you care about their futures, which can help you retain valuable employees. It strengthens your employee benefits package, which can help you recruit great new employees. And it generally offers tax breaks for you, your business, and your employees.

Among the various types of retirement plans for small businesses and self-employed individuals, IRA plans are the easiest to establish and manage. Currently, there are three ways your business can make IRAs available to your employees. You can establish a SIMPLE IRA retirement plan. You can establish a SEP IRA retirement plan. Or you can create a payroll deduction program.

Here's an introduction to the three IRA options. Your financial advisor can help you evaluate these options, as well as others, to determine the best approach for your business.

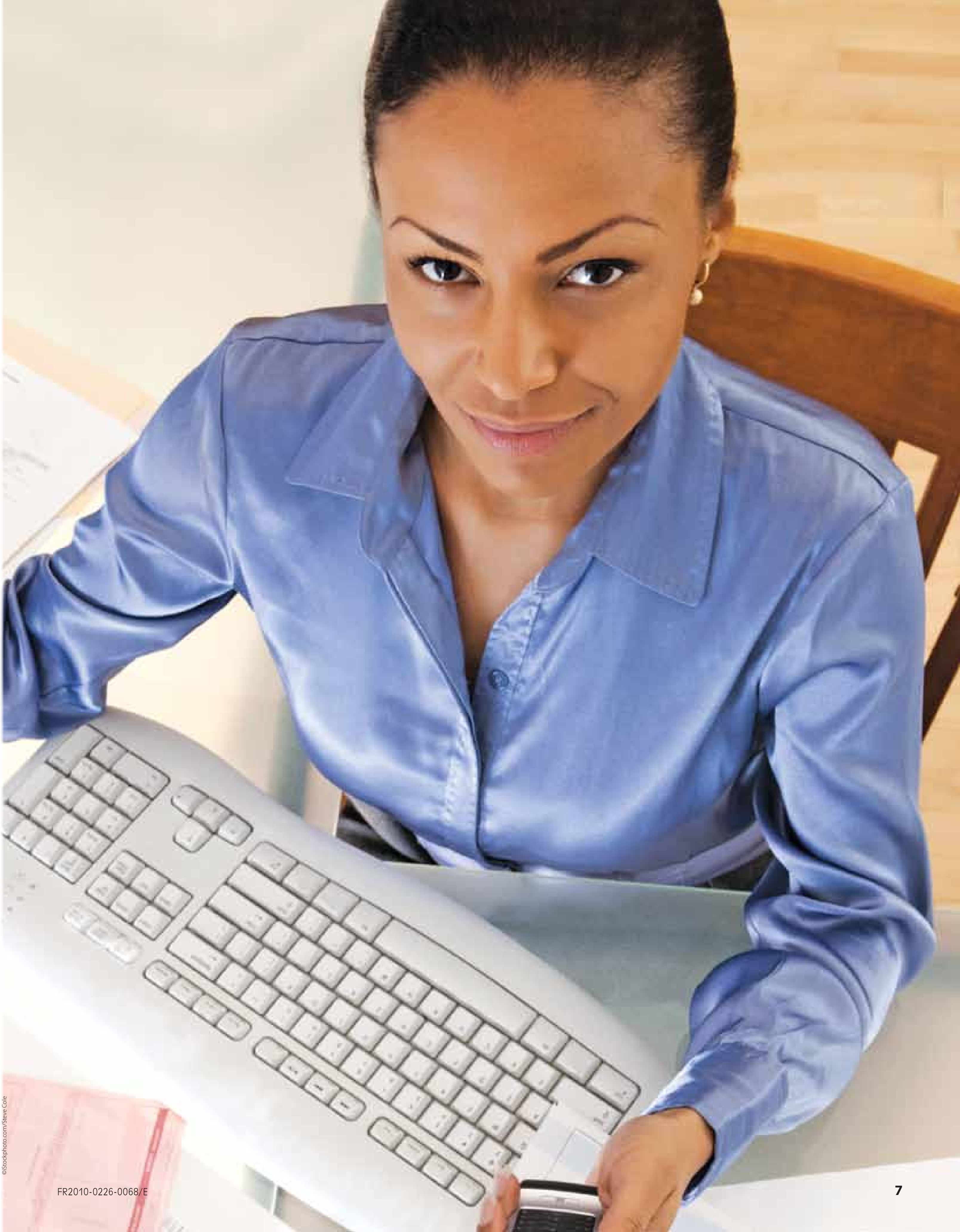
SIMPLE IRA

If you want a retirement plan that both your business and your employees can contribute to, consider a SIMPLE IRA. As its name suggests, it is one of the simplest retirement plans to manage. It can be set up by any business—including sole proprietors and self-employed individuals—with 100 or fewer employees that do not currently maintain another retirement plan.

With a SIMPLE IRA plan, both the employer and the employees contribute to individual retirement accounts (IRAs) set up for the employees—and benefit from tax breaks for doing so. Your business can deduct contributions it makes to employees' retirement accounts. Employees—and this includes you—can contribute compensation to their accounts before federal income tax has been withheld from it, which reduces their income taxes for the year. Plus, contributions and investment earnings are not taxed until withdrawn from the IRAs, which enables savings to potentially compound faster.

Employees can contribute up to $11,500 each year. Employees who are age 50 or older can contribute an additional $2,500 each year. This extra amount is known as a catch-up contribution. The annual contribution limits increase occasionally; the limits shown here are for 2010.

Employers must contribute each year to their employees' IRAs. Your business can either match the employee contributions of those employees who have chosen to contribute or contribute 2% of compensation to all employees. If your business decides to make matching contributions, the contributions must be a dollar-for-dollar match of your employees' contributions up to 3% of compensation.



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SEP IRA

If your business wants the flexibility to contribute to your employees' retirement accounts in some years, but not in others, consider a SEP IRA. Employer contributions are not required each year for this type of plan, making it ideal for businesses whose cash flow fluctuates from year to year.

With a SEP IRA plan, only the business—not the employees—can make contributions. Your business can contribute from 0% to 25% of each eligible employee's compensation, up to $49,000 in 2010. The percentage must be uniform for all eligible employees. If you are self-employed, the most your business can contribute to your own account is 20% of your net earnings, up to $49,000.

Contributions can be deducted by your business and are not taxed until withdrawn from the IRAs.

Payroll Deduction IRA

If your business wants to make it convenient for employees to save for retirement, but does not want to contribute to their retirements, consider offering to deposit a portion of their paychecks directly into their personal IRAs.

This option is not a retirement plan at all, but simply an expansion of your direct deposit options. Employees who wish to participate set up their own IRAs and authorize you to deduct a portion of their paychecks for deposit into their IRAs. Then you electronically transmit the deductions to the financial institution(s), as you would with any direct deposit.

A payroll deduction IRA program does not offer any tax breaks to the employer. It is simply a good will gesture you can make to your employees. ■

If you are self-employed or own a business, ask your financial advisor about business retirement plans.

Automatic IRAs proposed for businesses without retirement plans.

Businesses that do not offer a retirement plan may one day be required to automatically enroll employees in IRAs and deposit part of their compensation into these IRAs unless the employees opt out. As of mid-March 2010, automatic IRAs are still just a proposal, but the concept has the support of President Obama and many members of Congress and may eventually become law. ■

FR2010-0226-0068/E

IRA Options for Businesses

	SIMPLE IRA	SEP IRA	Payroll Deduction IRA
What is it?	An easy-to-manage retirement plan that allows both the employer and the employees to contribute to IRAs set up for the employees.	An easy-to-manage retirement plan that allows the employer to contribute relatively large amounts without being locked into making a contribution each year. Employees cannot contribute.	It is not a retirement plan at all, but rather a direct deposit program. Essentially, all the employer does is electronically deposit part of the employees' pay into IRAs that the employees have set up.
Who contributes?	Employees and employers.	Employers.	Employees.
How much can be contributed each year?	**An employee can contribute up to:** $11,500 if under age 50. $14,000 if age 50 or older. (2010 limits) **The employer must either:** • Match employee contributions dollar-for-dollar up to 3% of compensation, or • Contribute 2% of compensation to all eligible employees, regardless of whether an employee contributes to his or her own account. Employer contributions are required each year.	**The employer can contribute:** From 0% to 25% of an employee's pay, but no more than $49,000 for 2010. The percentage must be uniform for all eligible employees. Employers are not required to make a contribution each year. (If you are self-employed, a maximum of 20% of your net earnings, up to $49,000 in 2010, can be contributed to your own SEP IRA.)	**An employee can contribute up to:** $5,000 if under age 50. $6,000 if age 50 or older. (2010 limits)
Tax benefits	**Employee:** Contributions and investment earnings are not subject to federal income tax until withdrawn from the IRA. **Employer:** The business can deduct contributions it makes to its employees' accounts.	**Employee:** Contributions and investment earnings are not subject to federal income tax until withdrawn from the IRA. **Employer:** The business can deduct contributions it makes to its employees' accounts.	**Employee:** Earnings grow tax-deferred. Contributions to a Traditional IRA may be tax deductible. **Employer:** None.
When can employees make withdrawals?	Any time.	Any time.	Any time.
Tax on withdrawals	A withdrawal is subject to income tax in the year it is received. An additional 10% penalty generally applies to withdrawals made before age 59½. The penalty increases to 25% if the withdrawal is made before the account is two years old.	Withdrawals are subject to income tax in the year they are received. An additional 10% penalty generally applies on withdrawals made before age 59½.	**Traditional IRA:** A withdrawal is subject to income tax in the year it is received. An additional 10% penalty generally applies on withdrawals made before age 59½. **Roth IRA:** Contributions can be withdrawn tax-free at any time. Investment earnings can be withdrawn tax-free after age 59½ and after the account has been open for at least five years. Investment earnings withdrawn before that time are generally subject to income tax and a 10% penalty.

Five Financial Tips for 30 & 40 somethings


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IF YOU ARE in your thirties or forties, you may be pursuing a career, raising a family, or both. While your income may be rising, your expenses—a new car, a larger home for a growing family, starting a business—may also be rising. Despite what may be increasing demands on your income, it is important to continue to save and to take steps to protect your financial security, as well as the security of those you love. Here are five financial tips for 30- and 40-somethings.

1 Get on track for retirement.

It's easy to put off saving for retirement, considering all of the demands on your income. Putting off saving, however, may make it more painful for you to reach your retirement goal. While someone in their mid-twenties may be able to reach their goal by saving 10% to 15% of their income each year, someone who begins to save in their mid-forties may need to save 30% to 35% of their income each year. Ouch!

By beginning to save earlier, investment earnings have longer to compound—this means that the earnings have more time to potentially generate additional earnings. The more time your earnings have to compound, the less money it may take from your own pocket to reach your retirement goals—which is why it is generally a good idea to begin saving for retirement as early as possible. If you haven't begun to save for retirement yet, don't panic, but do create a financial plan that estimates what it may take in savings to be able to finance thirty years of retirement.

How much should you be saving each year at this point in your life? The maximum amount allowed by your workplace retirement plan? More? Although contributing the maximum to your retirement plan at work is generally a good idea because of the tax breaks and the possibility of an employer match, it may not be enough to fund the retirement you envision. You need a number to shoot for that is based on your own circumstances and goals—not the federal government's annual limit on contributions. The best way to arrive at that number is to analyze your financial situation, including factors such as:

- **Your income.** Higher income people who want to maintain their lifestyle in retirement typically need to save a greater percentage of their income because Social Security will replace less of it.
- **Years until retirement.** The greater the number of years, the less money you may need to save out of your own pocket.
- **Investment style.** Conservative investors may need to sock away more than moderate investors who have a better chance of earning more on their investments.
- **Your other retirement assets, such as pension plans.**
- **The amount you have saved so far.**

Talk to your financial advisor about how much you should be saving each year based on your circumstances and goals. Your advisor can analyze your situation and help you settle on an amount. Then check in with your advisor periodically to assess whether you are on track to reaching your retirement goal or whether course corrections are needed.

2 Save for your children's education.

If you thought that college costs were high when you attended college, wait 18 years. Tuition has been increasing more rapidly than the rate of inflation for decades now. In 2009-2010, the average published price of tuition at a public four-year college jumped 6.5% to $7,000 per year, while the average tuition at private colleges took a more modest 4.4% leap to $26,300 per year, according to the College Board. If costs continue to increase at this pace, annual tuition may be $20,400 at public colleges and $54,700 at private colleges by the time children born today head to college.

Don't let the numbers intimidate you. Remember, even small amounts you regularly invest have the potential to grow exponentially over time. For example, an investment of $100 a month earning 6% annually in a tax-free account will grow to about $39,000 in 18 years. (This example is for illustrative purposes only and does not represent the return of any specific investment.)

One way to help maximize the amount you save for education is to use tax-favored savings plans. Both Coverdell education savings accounts and state-sponsored 529 college savings plans allow your investments to grow free from federal taxes and to be withdrawn free from federal taxes if used for qualified education expenses. Because the investment earnings are not taxed each year, your savings compound faster in a tax-favored account than in a taxable investment or savings account.

There are significant differences between Coverdell education savings accounts and 529 college savings plans. Your financial advisor can help you determine which suits your needs best.

Coverdell Education Savings Accounts

- Savings can be used tax-free for all levels of education, from elementary school to graduate school.
- Contributions are limited to $2,000 per student per year.
- To contribute, your modified adjusted gross income must be less than $110,000 ($220,000 if you are married and file jointly). The amount you can contribute per year is reduced if your income exceeds $95,000 ($190,000 if you are married and file jointly).
- Parents can choose from a wide array of investment options, including mutual funds, stocks, bonds, and CDs.

529 College Savings Plans

- Savings can be used tax-free only for higher education (college, graduate school, etc.).
- Most plans allow $200,000 to $300,000 to be contributed overall to a single account; there are no limits on the amount you can contribute annually.
- Anyone can contribute to a 529 plan; there are no income limits.

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- The person who opens the account (the account owner) chooses how the money is invested from among professionally managed investment portfolios.

About 529 College Savings Plans: *For more complete information about a 529 college savings plan, including investment objectives, risks, fees, and expenses associated with it, please carefully read the issuer's official statement before investing. It can be obtained from your financial advisor. Please consider before investing whether your home state offers any state tax or other benefits that are only available for investments in your state's qualified tuition program. Other benefits may include reduced or waived program fees, matching grants, and scholarships to state colleges. Any state-based benefit offered with respect to a particular 529 college savings plan should be one of many appropriately weighted factors to be considered in making an investment decision. You should consult with your financial, tax, or other advisor to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You also may wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits, and limitations of that state's 529 college savings plan.*

3 Consider purchasing life insurance.

At this point in your life, you may have people—a spouse, children, parents—who depend on you financially. Would these people suffer financially if you were to die? If your answer is yes, please give serious thought to purchasing life insurance.

Life insurance helps pay for things that your income currently covers. The proceeds, known as a death benefit, can help ensure that your family can continue living in their home, attend college as planned, and maintain a comfortable standard of living.

There are two basic types of life insurance: term and permanent. As the name implies, term life insurance pays a death benefit if you die within the term of the policy, say, within 20 years. This type of policy usually has lower premiums than permanent policies and is often used when insurance is just needed until, for example, the mortgage is paid off or the kids are through college. Permanent life insurance, as you've probably deduced, covers your entire life as long as you continue to pay the premiums.

Talk to your financial advisor about life insurance. Your advisor can help you determine the type and the amount of life insurance that is right for you.

4 Use credit wisely.

One of best financial moves you can make is to live within your means. This does not mean that you should shun credit altogether, but that you use it wisely. Here are a few guidelines.

Although credit cards can be useful, they are generally the most expensive form of credit. Use credit cards for their convenience and keep one handy for an emergency, but do not use them to live beyond your means. Ideally, you should not charge anything that you can't afford to repay in full each month, in addition to paying your other bills and saving for your goals.

In order to reach certain goals—such as owning a home—it may be necessary to borrow money. Be sure to shop around for the best rates and terms. Even small differences in the interest rate can add up to a considerable difference in the amount of interest you pay over the life of a 30-year mortgage.

Before you borrow a dime, make certain that you can afford to repay the loan. One way to estimate how much debt you may be able to afford is to calculate your debt-to-income ratio by dividing your monthly minimum debt payments by your monthly gross income. The debt-to-income ratio is used by lenders to gauge your ability to repay a loan. Many lenders prefer that your housing payments not exceed 28% of your gross income and that your total monthly debt payments (house, student loans, auto loans, credit card, and other debt payments) not exceed 36% of your gross income. Please keep in mind, though, that these general guidelines indicate how much you *can* borrow, not how much you *should* borrow. Be sure to consider how much you are comfortable spending on debt, in light of your other expenses and financial goals.

Review your credit reports regularly for accuracy and signs of fraud. An inaccurate report may lower your credit score, which may result in lenders denying you credit or charging you a higher rate for credit. It may also increase the rate you pay on auto and homeowners insurance. You can request a free credit report from each of three major credit reporting companies at www.AnnualCreditReport.com.

5 Create a basic estate plan. Think you are too young to need an estate plan? Think again. While you may not need a complex estate plan at this point in your life, creating a few basic estate planning documents that give direction in the following areas is generally a good idea.

Who will act as legal guardian to your minor children after your death? If you are a parent, creating a will is imperative because it is the legal document where you name a person to act as guardian for your children if you should die while the children are still minors.

Who will inherit your estate? Everyone needs a will to direct how their estate (homes, vehicles, personal possessions, etc.) is to be distributed after their death. Without a will, state law will generally dictate who inherits your estate. (Property that you hold in joint tenancy with someone else and financial accounts where you have named a beneficiary can be transferred without a will.)

Who will make medical decisions for you if you are incapacitated? A health care proxy, also known as a medical power of attorney, enables you to name someone to make medical decisions on your behalf should you become too ill or injured to make them on your own.

Who will handle your financial affairs if you become incapacitated? Even if you are seriously injured or ill, your bills still need to be paid. A durable power of attorney for finances enables you to give someone the legal authority to handle your financial affairs if you become incapacitated.

Setting up a will, a health care proxy, and a durable power of attorney can help ensure that your wishes are carried out should something dire happen. An attorney that specializes in estate matters can help you create the documents and determine whether additional documents are needed in your specific circumstances. ■

Financial tips, such as the five described here, are all well and good, but where do you start? How do you make it happen?

Your first step should be to talk to your financial advisor. Your advisor can help you assess your financial situation and create a financial plan designed to help you meet your financial objectives.

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Municipal Bonds

The higher your tax bracket, the more you may benefit from municipal bonds.

If federal income tax rates and capital gains tax rates increase as proposed in the President's 2011 budget, Uncle Sam may soon lay claim to a bigger share of the interest income, dividends, and capital gains received by investors with incomes over $200,000 ($250,000 for joint tax filers). One way high-income investors can help minimize the tax bite is to invest in tax-exempt municipal bonds. Here's a look at this tax-favored type of investment.

The Tax Advantage

Municipal bonds are issued by states, cities, counties, and their agencies to raise money to build highways, schools, airports, and other projects that benefit the public. In return for the loan of your money, the bond issuer promises to pay you interest and return the principal to you on the bond's maturity date.

Sounds similar to a typical bond so far, right? Here's the big difference: the interest income you receive from many (but not all) municipal bonds is exempt from federal income taxes. In most states, the income is also exempt from state and local income taxes if the bond was issued in your state.

Because the interest is free from federal income taxes and possibly state and local taxes, tax-exempt municipal bonds can pay a lower rate of interest than taxable bonds and still remain attractive to investors—at least to high-income investors who benefit the most from avoiding taxation.

Which bond offers you a greater return—a tax-exempt bond where you generally get to keep all of the interest or a taxable bond that pays a higher rate of interest but where you will have to give up part of it to taxes? To answer this, you'll need to know the municipal bond's taxable equivalent yield—that is the yield you would need to earn on a taxable investment to match the tax-exempt yield on the municipal bond. This can be determined using a taxable equivalent yield calculator.

In the graphic on the next page, we've calculated the taxable equivalent yield for a tax-exempt bond yielding 5% to illustrate that the higher your income tax bracket, the more you may benefit from tax-exempt bonds. Let's say you are comparing a 5% tax-exempt bond to a 6% taxable bond. Looking at the example, you can see that the taxable equivalent yield of the tax-exempt bond is less than 6% for investors in the 10% and 15% tax brackets. Therefore, investors in these two tax brackets would receive a higher yield with the 6% taxable bond even after taxes are paid on it. Investors in the higher tax brackets would receive a higher yield with the 5% tax-exempt bond.

Other Tax Considerations

Although the interest income from tax-exempt municipal bonds is exempt from federal income taxes, gains on the sale of these bonds are taxable.

Some municipal bonds that are exempt from regular federal income tax may be subject to the alternative minimum tax (AMT). These bonds are typically private activity bonds—a type of municipal bond issued to finance projects, such as airports, that are used by private businesses. Before investing in private activity bonds, you may want to discuss the tax impact with your tax advisor.

Generally, tax-exempt municipal bonds should be held in taxable investment accounts, not tax-favored accounts. Remember, all income generated in tax-deferred accounts, such as Traditional IRAs and other retirement accounts, is subject to income tax when withdrawn from the account, regardless of whether the income was generated by tax-exempt bonds.

Types of Municipal Bonds

There are two main types of municipal bonds. The first type, general obligation bonds, are backed by the full faith and credit of the bond issuer and are secured by the bond issuer's taxing power. For example, a school district issuing bonds to finance the construction of a new school will use the school taxes it receives to make the interest and principal payments.

The second main type of municipal bond, revenue bonds, are secured by the revenue generated by the projects they finance. For example, bonds issued to reconstruct a bridge may use the revenue from tolls to make interest and principal payments.

Understanding the Risks

As with all bonds, municipal bonds are subject to certain risks, key among them:

Credit risk: This is the chance that the bond issuer may default on its obligation and fail to pay interest or return the principal. To evaluate the credit quality of a specific bond, check its rating with the bond rating agencies: Moody's, Standard & Poor's, and Fitch.

Interest rate risk: When interest rates rise, bond prices fall, and vice versa. If you sell bonds before maturity, you will receive the current market price which may be more or less than you originally paid.

Call risk: Some municipal bonds can be called in prior to maturity. This means that the bond issuer can choose to repay them early, generally in a period of declining interest rates so that they can offer new bonds at lower rates. If investors want to reinvest the proceeds in comparable bonds, those bonds may have a lower yield than the original bonds.

Before investing in a municipal bond, please read the bond issuer's official statement, which provides information essential in making an informed decision.

Individual Bonds or a Mutual Fund?

Individual municipal bonds have a lot going for them. They pay a fixed rate of interest so you know exactly how much income to expect each period. You get the full principal returned to you at maturity, regardless of fluctuations in the bond's price along the way. And the income is usually free of federal income taxes and possibly state and local taxes. But because municipal bonds are generally sold in increments of $5,000, building a diversified bond portfolio can take a significant capital investment.

If you do not want to invest the time or money to build a diversified portfolio of individual municipal bonds, you can still tap into the tax-exempt income they offer by investing in a mutual fund that invests in them. Sure, the interest dividends will fluctuate from period to period as the fund buys and sells bonds. And, sure, the fund will distribute the capital gains on those sales to you from time to time. And you will not have the option to hold the bonds until maturity. But the interest income you receive will generally be tax-exempt. Plus, you stand to benefit from the diversification, professional management, and liquidity that mutual funds typically offer.

If you decide to go with a mutual fund, be sure to consider the fund's objectives, risks, charges, and expenses, which can be found in the fund's prospectus. You can get a copy of it from your financial advisor. Please read the prospectus carefully before investing. ■

Your financial advisor can help you determine whether municipal bonds may be a good investment choice for you.

Taxable Equivalent Yield

EXAMPLE **To beat a 5% yield from a tax-exempt bond...**

investors in this federal income tax bracket...	would need a taxable bond yielding more than...
10%	5.56%
15%	5.88%
25%	6.67%
28%	6.94%
33%	7.46%
35%	7.69%

This example considers the 2009 federal income tax rates only. Municipal bonds that are also exempt from state and local taxes will have higher taxable equivalent yields than shown here.

For someone in the 35% federal income tax bracket, a tax-exempt bond with a 5% yield is equivalent to a taxable investment with a 7.69% yield. So, unless a taxable investment yields more than 7.69%, the municipal bond offers the higher income.

The Cotswolds: Britain's Most Charming Corner

BY BRIAN JOHNSTON

Every morning, the red sun comes up from behind rolling farmland, bringing out the warm honeyed color of the stone cottages and brushing their thatched roofs with gold. It rises across wooded valleys and open meadows where placid sheep graze. By late morning, the sun is glinting off sluggish streams that meander through stands of willow and oak. Bluebells and daffodils dance in the fields, and birds nest in the hedgerows. This is the Cotswolds, and an English spring at its very best.

The Cotswolds is a term used to refer to an area of west-central England that makes up the county of Gloucester and some parts of Oxfordshire and Somerset. Although London is no more than a three-hour drive away, this region feels remote and tranquil, where life is lived at a traditionally slow pace and things seem to have barely changed in centuries. The region is associated with the rural prettiness that seems so typically English: sleepy churchyards, ancient farms crouching under thatched roofs, rambling villages of stone houses, and sheep-dotted pastures.

True, the Cotswolds aren't always as tranquil as you might think, with significant numbers of tourists heading here to enjoy the delights of country life. Never mind; it only means there are plenty of antique stores to rummage through and plenty of places where you can stop off and enjoy that English specialty, afternoon tea with scones, cream, and strawberry jam. Off the main routes, you can also still find surprisingly peaceful corners of the Cotswolds that seem to have changed little since the days of Jane Austin.

The Cotswolds are renowned for many reasons, not least because of the variety of experiences they offer. Visitors can head for some culture and history at Stratford-upon-Avon, renowned as the hometown of Shakespeare. They can take in the elegant architecture and Roman baths of Bath, the biggest town in the area. Perhaps the best place to use as a base is Cheltenham, another well-known spa town with fine eighteenth-century architecture and delightful gardens. The waters here made the town famous centuries ago when royalty came to Cheltenham to take the waters for health purposes. It's still a genteel town, with literary and musical festivals all year and good theaters. The streets are lined with bookstores, antique shops, and some of Britain's most famous brand names, from Laura Ashley to Liberty and House of Fraser. But Cheltenham is also unmistakably

The village of Castle Coombe, left, is considered by many to be the most beautiful village in England. Walkers, right, approach Broadway in the Cotswolds.

©iStockphoto.com/Left: Bart Parren, Above: David Cannings-Bushell

the center of a farming community, and down side streets you can find shops that are a total contrast to elegant boutiques, selling animal feed and farm implements. Rickety farm trucks push past BMWs, and farmers and society ladies mingle.

This is a rich agricultural area, and most of the Cotswolds is ideal for sheep grazing. In the Middle Ages, the region became rich on sheep that were particularly renowned for the quality and thickness of their fleece. It was this wealth that resulted in so many of the fine stone manors and churches (once referred to as 'wool churches') you see everywhere. The church in the town of Northleach is among the least spoilt and historic of the wool churches and is sometimes called the Cathedral of the Cotswolds for its magnificence. Perhaps the most delightful house is Stanway House near Stanton, which dates from the sixteenth century. This is a superb country manor built of the mellow, honey-colored limestone you see everywhere in the Cotswolds. Owned and lived in by Lord and Lady Neidpath, there are personal items scattered everywhere, giving it a wonderfully intimate feeling of a home rather than a museum. The gatehouse which leads into the grounds is a beautiful building and one of the best examples of Cotswold architecture.

When the wool trade eventually declined in importance in England, the Cotswolds were virtually forgotten, which is why many of the houses and villages here have remained almost unchanged for centuries. The drystone walls you see everywhere, fitted together like jigsaws without mortar, still enclose sheep paddocks, and the sight of sheep grazing on the hillside remains one of the Cotswold's classical landscapes. To best appreciate the rural atmosphere, you should abandon your car and go for a ramble in the countryside. Local tourist information centers have good maps for gentle walks which head out along the banks of rivers or through stands of woods. Real walking enthusiasts can follow the hardy Cotswold Way, which runs for 104 miles from Chipping Camden to Bath on a very meandering route well marked by yellow signposts. Hikers take a week or so to walk its entire length, but you can always take in just one section. The scenery is spectacular, and the path often follows the edges of rocky escarpments, from which you get views of rolling countryside and villages nestled in valleys like something from the Hobbit lands in *Lord of the Rings*.

Climb over drystone walls, ramble through beech forests kicking at leaves, inspect Iron Age forts and medieval villages. In spring, bluebells carpet the ground in a splendid display of color. The rolling limestone hills are interspersed with deep gorges and rather sparse plateaus. The odd names of the villages reflect the surrounding environment: Wotton-under-Edge, Moreton-in-Marsh, Stow-on-the-Wold (wold being an old English word meaning 'high, open land') and Upper Slaughter (slaughter meaning 'muddy place'). If walking isn't your thing, you can amble around some of the delightful villages instead. The villages of Upper and Lower Slaughter and Bourton-on-the-Water are all within a mile of each other. Little streams meander through the villages over which little stone bridges arch and water wheels rumble. Broadway, full of sixteenth-century stone cottages, has become one of the most popular stops in the Cotswolds. Castle Coombe is also gorgeous and frequently vies for the title of most beautiful village in England, which is saying something in a land that takes pride in its traditions. Even the traffic signs are carved from oak, and the well-preserved cottages have no disfiguring shop signs or modern additions.

If you have time, stop off at smaller villages such as Bilbury, Painswick, or Woodstock, which are still off the main tourist track and surprisingly tranquil. Near Woodstock, however, stands one of the country's greatest sights: Blenheim Palace, a gift from the nation to John Churchill, first Duke of Marlborough, in celebration of his victory over the French at Blenheim. This grandiose palace, designed to rival Versailles, is a World Heritage site. The house is full of porcelain, antique furniture, tapestries, oil paintings, and more art than you'd care to see in any one day. The palace is also renowned as the birthplace of Sir Winston Churchill, and an exhibition shows the wartime Prime Minister's letters, books, and photographs. The great man is buried in Bladon churchyard near Blenheim.

Blenheim also has magnificent gardens that include the world's largest hedge maze. Of course, nothing is more quintessentially English than the nation's obsession with gardening, and there are certainly plenty of gardens in the Cotswolds that are a sheer delight. The gardens at Bowood House were designed by one of the country's most famous landscape architects, Capability Brown, and include a vast 2000-acre park with a magnificent walk lined with rhododendrons. Sudeley Castle, on the other hand, is better known for its roses and for the fact that this was the house of Catherine Parr, the sixth and last wife of the notorious Henry VIII, a sixteenth-century king of England who divorced two wives and chopped off the heads of two others.

From great castles to thatched cottages, from grand estates to country gardens full of snapdragons and sweet peas, the Cotswolds is never short of surprises. This area of tradition and tranquility is one of Britain's most charming corners and a pure delight. ■

open STUDIOS

FOR A FEW DAYS EACH YEAR, artists across the country throw open the doors to their studios, inviting the public to view their work in the setting in which it was created and to learn firsthand about their creative processes. These events, generally known as Open Studios, are a great way to meet a diverse group of artists—painters, sculptors, photographers, and other types of visual artists and craftspeople—and perhaps to add new pieces to your art collection.

Open Studio tours come in all sizes, from neighborhood walking tours to statewide celebrations of the visual arts. In Boston, Philadelphia, San Francisco and many other cities where artists live and work in close proximity, you can grab a map of the participating studios and hit the pavement, popping in at those studios that grab your fancy. In other locales where the participating studios may be in adjacent towns, a car comes in handy. Vermont's Open Studio Weekend may be the largest of the events—at least in terms of geography—with over 250 sites across the state open to the public on Memorial Day weekend each year.

In general, the tours are self-guided: you start where you want and visit only those studios you want.

The events listed below are just a few of the many Open Studio events scheduled for this year. Keep an eye out for similar events happening in your hometown. ■

Asheville, NC • Studio Stroll • Second full weekend in June and November

Boston, MA • South End Open Studios • September 25-26, 2010

Boulder, CO • Open Studios • First two weekends in October

Chautauqua, NY • Chautauqua-Lake Erie Art Trail • May 29-30, 2010

Houston, TX • Artcrawl Houston • The Saturday before Thanksgiving

Madison, WI • Madison Open Art Studios • October 2–3, 2010

Philadelphia, PA • Philadelphia Open Studio Tours • First two weekends in October

Portland, OR • Portland Open Studios • Second and third weekends in October

San Francisco, CA • SF Open Studios • Last four weekends in October

Silicon Valley, CA • Open Studios • First three weekends in May

San Luis Obispo, CA • Open Studios Art Tour • Middle three weekends in October

St. Louis, MO • City-Wide Open Studios • A week in July

Western Sonoma County, CA • Art at the Source • June 5–6 and June 12–13, 2010

Vermont • Open Studio Weekend • May 29–30, 2010

THE NEW TAMPA MUSEUM OF ART

Graphic: Richard Barnes

The Tampa Museum of Art opened the doors to its new building on February 6, 2010, thirty-one years after the museum was founded.

Designed by San Francisco architect Stanley Saitowitz, the new 66,000-square-foot facility houses eight expansive galleries, a museum store, café, and lecture rooms. The bold design features a perforated aluminum exterior, a dramatic three-story atrium lobby, and state-of-the-art gallery spaces.

The Tampa Museum of Art exhibits modern and contemporary art, as well as Greek, Roman, and Etruscan antiquities. It is located in Tampa's Curtis Hixon Waterfront Park along the Riverwalk. Please visit the museum's web site, **www.tampamuseum.com**, for more information. ■

QUIZ

1. Director Ron Howard starred in this 1960's television series set in the fictional town of Mayberry:

A. Happy Days
B. The Andy Griffith Show

2. Morticia and Gomez headed this ghoulish TV family in the '60s:

A. The Addams Family
B. The Munsters

3. Sergeant Joe Friday was the main character in this police drama that ran off and on through the 1950s and 1960s:

A. Kojak
B. Dragnet

4. John Travolta first became known as Vinnie Barbarino, the leader of the Sweathogs, in this 1970s series:

A. The Partridge Family
B. Welcome Back, Kotter

5. The Ponderosa ranch is the setting for this long-running TV Western about the Cartwright family:

A. Bonanza
B. Gunsmoke

6. The 1980's series starring Bruce Willis and Cybill Shepherd as private detectives was:

A. Moonlighting
B. Hawaii Five-O

7. This series about a witch who marries a mortal and tries in vain to lead a normal life as a housewife ran from 1964 to 1972:

A. I Dream of Jeannie
B. Bewitched

ANSWERS: 1–B, 2–A, 3–B, 4–B, 5–A, 6–A, 7–B.