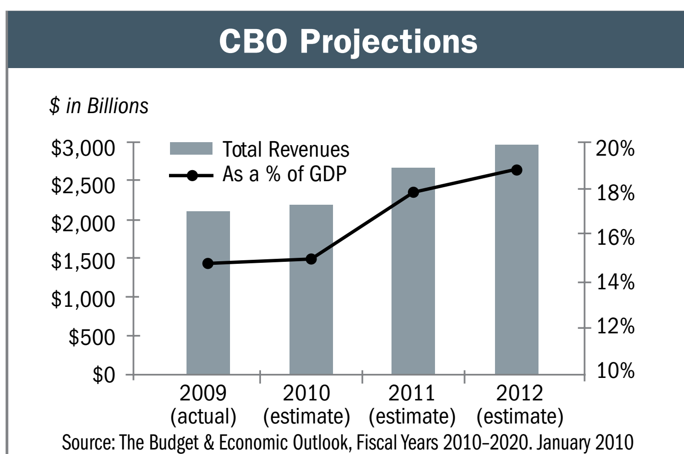
Going Up?

No one likes to pay taxes! However, the truth is, the last nine years have been a relatively tax-friendly period. This may come to a crashing halt in the next year, with the expiration of key provisions of the Economic Growth Tax Relief and Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). Consider the following from The Revenue Outlook, published by the Congressional Budget Office (CBO):[1]

- Individual income tax receipts are the largest source of federal revenue, averaging about 45% of the total during the past 40 years.
- Since 1970, total revenues have averaged just above 18% of GDP; they fell to a low of 14.8% in 2009.
- Several tax provisions enacted over the past decade are set to expire in December 2010. Because of those expirations and a strengthening economic recovery, CBO projects that revenues will increase substantially after 2010, rising by about 23% in 2011 and by another 11% in 2012, to reach 18.8% of GDP in 2012.

CBO Projections



Source: The Budget & Economic Outlook, Fiscal Years 2010-2020. January 2010

Economic Growth Tax Relief and Reconciliation Act of 2001

This Act made significant changes in several areas of the U.S. Internal Revenue Code, including income tax rates, estate and gift tax exclusions, as well as qualified and retirement plan rules. In general, the act lowered tax rates and simplified retirement and qualified plan rules, such as for IRAs, 401(k) plans, 403(b) plans, and pension plans.

Jobs and Growth Tax Relief Reconciliation Act of 2003

Among other provisions, this Act accelerated certain tax changes passed in the EGTRRA of 2001, increased the exemption amount for the individual Alternative Minimum Tax, and lowered taxes on income from dividends and capital gains.

1 Congressional Budget Office. *The Budget and Economic Outlook, Fiscal Years 2010 to 2020*, Chapter 4. January 2010.

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What Is Set to Expire?

If you're having trouble recalling some of the tax law changes that were implemented in 2001 and 2003, you're not alone. You need to know what may be changing so you can talk to your Financial Advisor. The following are a few of the tax law changes that are currently set to expire at the end of 2010:

- **Tax Bracket Changes —** EGTRRA created a new 10% income tax bracket that will be eliminated after 12/31/2010. Beginning in 2001, federal income tax brackets were gradually reduced. With the expiration of EGTRRA, the top marginal federal income tax bracket goes back to 39.6%.

- **Capital Gains Tax Rate —** Long-term capital gains rate (for capital assets that have been held for at least one year) will change from 15% to 20%.

- **Dividend Income —** Currently, for individuals in the 10% and 15% income tax brackets there is no income tax on dividend income. For those in all other tax brackets dividend income is taxed at 15%. In 2011, without further legislation, dividend income will again be taxed at ordinary income rates.

- **Phase-Outs for Personal Exemptions —** Personal exemptions reduce the amount of tax individuals pay by reducing taxable income. Each taxpayer is entitled to a personal exemption, in the amount of $3,650 in 2010, for themselves and any dependents. In 2001, individuals who earned above certain threshold amounts lost 2% of their personal exemptions for every $2,500 over the threshold amount. Essentially, the personal exemption was phased out for more affluent taxpayers. EGTRRA gradually increased the threshold amounts, and in 2010 the phase-out is completely repealed for only one year.

- **Phase-Outs for Itemized Deductions —** Similarly, EGTRRA slowly reduced the phase-out of itemized deductions for high-income taxpayers. Beginning in 2010, EGTRRA completely repeals the itemized deduction phase-out. The repeal will last only one year.

- **Alternative Minimum Tax —** Alternative Minimum Tax (ATM) was designed to prevent wealthy taxpayers from taking advantage of too many tax breaks and preference items. Therefore, all people pay a minimum amount of tax. The tax cuts in 2001 and 2003 created a problem for many middle and upper middle class taxpayers that became affected by AMT. In the past, Congress has approved an "AMT patch" each year, which increases the AMT exemption amount. There is no certainty the AMT exemption amount will be permanently increased.

- **Estate Tax —** The highest federal estate tax rate will change to 55%, rather than 45%. The applicable exclusion amount will also revert back to $1 million (adjusted for inflation since 2001). Keep in mind that in 2010, there is no estate tax. However, there is a system of carry-over basis rather than a step-up in basis.

Help Reduce Your Income Tax Burden

Although no one knows the future of tax rates, many believe they can be headed only in one direction, and that is up. If taxes do trend upward in the future, you need to make sure you are prepared. There are a number of proactive steps you and your Financial Advisor can implement to help reduce your income tax burden.

- Tax-Deferred Investing — An industry study reported by Lipper states that in 2008 taxable mutual fund investors paid over $33.8 billion in taxes. The majority of these taxes were paid in the form of capital gains distributions. These distributions had a significant impact on the performance of these taxable investments. Tax deferral can provide additional compounding power on your investment returns. Investing in a variable annuity allows you to defer paying taxes on your investments until you make a withdrawal. It also allows your investments to grow tax-deferred and avoid the tax drag that comes with a taxable investment portfolio. Over time, the benefit of tax deferral can have a significant impact on the overall performance of your investment portfolio.
- After the economic meltdown at the end of 2008, many investors are challenging the traditional portfolio doctrine of buy and hold. If part of the investment strategy with your Financial Advisor includes more active management, two things will become increasingly important:
  1. The availability of a robust investment platform that includes top money managers and sector-specific investing.
  2. The ability to make tax-free transfers and exchanges between investment options.

What is a Mutual Fund?

A mutual fund[2] is operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, futures, currencies, or money market securities. These funds offer investors the advantages of diversification and professional management. A management fee is charged for these services. Mutual funds levy other fees such as 12b-1 fees, exchange fees and other administrative charges. Mutual fund shares are redeemable on demand at net asset value by shareholders. All shareholders share equally in the gains and losses generated by the fund. Mutual funds are subject to investment risks, including possible loss of principal invested.

Class A, B and C shares are most common. Class A shares typically have a front-end load, a sales charge payable when shares are bought, and generally have the lowest annual 12b-1 fees. Class B shares typically have a back-end load, a sales charge payable when shares are redeemed, and generally have higher annual 12b-1 fees than A shares. Class C shares typically have no front-end load, a rear-end load ranging from very low to nothing, but have relatively high 12b-1 fees.

2 Source: Dictionary of Finance and Investment Terms, 6th Edition.

What is a Variable Annuity?

A variable deferred annuity is a long-term financial product designed for retirement. Simply stated, an annuity is a contract between you and an insurance company that lets you pursue the accumulation of assets through asset allocation and customized investment portfolios, and may provide an optional guarantee, which is available for an additional fee. Asset allocation helps spread your investment dollars across different asset classes, to help manage risk and enhance returns.

Continued

- Tax-free income becomes more important in a rising tax environment. Beginning January 1, 2010, investors, regardless of income, can convert a traditional IRA to a Roth IRA. This will require paying income taxes on the amount converted in the year of the conversion, but 2010 income tax rates may be lower than future income tax rates. This is a particularly important strategy if you are interested in passing tax-free income to your beneficiaries.
- Control provisional income, when possible. Provisional income determines the taxation of Social Security benefits and is calculated by adding tax-exempt income, and one half of Social Security benefits, to Modified Adjusted Gross Income (MAGI). If provisional income exceeds certain threshold amounts, Social Security benefits can taxable. If this is the case, then it may present an opportunity to take a look at the current portfolio. If there are assets that are currently producing taxable income that are not being utilized, then there is an opportunity to reposition those assets into a tax-deferred investment that will not be included in the provisional income calculation.

What is a Variable Annuity? *Continued*

Asset allocation does not guarantee a profit or protect against a loss, including possible loss of principal. Through customization you choose according to your risk tolerance. The goal is to select a mix of asset classes that will help you meet your long-term investment goals. Your portfolio is professionally managed and closely monitored, including your portfolio's performance, and remains consistent with your investment goals. Ultimately, you pay an insurance company and in turn, the company agrees to provide lifetime income or a lump sum from your accumulated assets.

There are fees and charges associated with variable annuities, which include mortality and expense risk charges, administrative fees, investment management fees, withdrawal charges, and charges for optional benefits. In addition, annuity contracts have exclusions and limitations. Withdrawals are subject to normal income tax treatment. Early withdrawals may be subject to withdrawal charges, and, if taken prior to age 59½, a 10% federal income tax penalty may apply. Withdrawals will reduce the death benefit, living benefits and cash surrender value. Withdrawals will come from any gain in the contract first for federal income tax purposes. Variable annuities are subject to investment risks, including the possible loss of principal invested. Guarantees described herein are subject to the claims-paying ability of the insurance company.

Learn More

No one knows definitively the future of income taxes. There are a number of factors, including the expiration of key tax legislation and a growing national debt, that indicate we may be heading into a rising tax environment. This may mean the conversations with your Financial Advisor changes. Instead of being focused on asset allocation and market returns, the emphasis may be tax-efficient investing. Talk to your Financial Advisor to discuss strategies designed to provide tax efficiency and income in retirement.

Tax Differences Between Mutual Funds and Variable Annuities

Mutual Funds	Variable Annuities
Income of dividends and capital gains on internal transactions, as well as any gains on the sale of an investment, are treated for tax purposes as capital gains instead of as ordinary income.	Gains and earnings within a variable annuity grow on a tax-deferred basis. When withdrawn, gains are taxed as ordinary income.
If an investor suffers a loss, he or she can claim it as a tax deduction.	Losses in non-qualified (NQ) annuities may or may not be deductible, and then only upon surrender of contract.
If an investor sells shares in a mutual fund in a taxable account in order to purchase shares of a different mutual fund, this exchange would trigger capital gains taxation.	1035 Exchanges trigger no tax consequences. An investor can exchange from one subaccount to another and the earnings from the original investment will remain tax-deferred until the annuity owner withdraws money from the variable annuity. Subaccount changes may be subject to additional fees. However, an exchange into another variable annuity may result in new or increased surrender charges or higher charges, such as annual fees. In addition, the features and benefits of the new product may have higher costs associated with them, and may not be necessary.

This material was prepared to support the promotion and marketing of variable annuities. AXA Equitable, its distributors and their respective representatives do not provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties. Please consult your own independent advisor as to any tax, accounting or legal statements made herein.

Variable annuities are long-term investment products designed for retirement purposes. Variable annuity contract values are subject to market fluctuation, investment risk, and possible of loss of principal.

Withdrawals from an annuity will be subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty. Withdrawals may also be subject to surrender charges. Withdrawals will reduce the death benefit, living benefits and cash surrender value. Withdrawals will come from any gain in the contract first.

You should carefully consider the investment objectives and the charges, risks and expenses of AXA Equitable's Variable Annuities, as stipulated in the prospectus, before investing. For a prospectus containing information on the variable annuity, the underlying subaccounts, and other information, please contact your financial professional. Please read it carefully before investing or sending money.

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