

Special  
Year-end

# Tax Guide



December 31, 2001

From Pacific Capital Funds



## "EGTRRA, EGTRRA! Read all about it." Tax Relief you can shout about...

Following this year's passage of the largest tax relief package in more than 15 years, virtually everyone is likely to keep more of what they earn.

Some provisions of the law are already in place — others will phase in gradually through 2010.

Called The Economic Growth and Tax Relief Reconciliation Act of 2001 — or EGTRRA — tax relief is likely to provide significant benefits to you and your heirs.

You may even find you have the opportunity to retire earlier.

### Playing by the **NEW** rules

EGTRRA offers something for virtually everyone, including increased contribution limits on retirement funding, expanded Education IRA benefits, and the introduction of catch-up contributions for pre-retirees aged 50 and up, as well as an overall reduction in estate taxes. What follows is a summary of highlights only and does not constitute tax advice. Please consult your tax adviser regarding your personal tax situation.

### What a tax relief

How low will your federal tax rate go? Here's what to expect year-to-year.

Calendar year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001 <sup>1</sup> to 2003	27%	30%	35%	38.6%
2004 to 2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

<sup>1</sup>Effective July 1, 2001

## A special offer from Pacific Capital Funds

Receive a **FREE New Legislation Tax Guide** from Pacific Capital Funds! To order your copy **CALL 800-258-9232**.

Want to put more money away for retirement?

Consolidate your workplace savings plans?

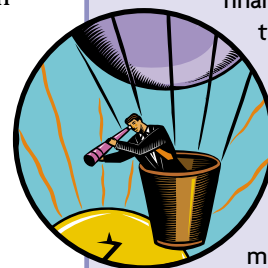
Pass on a greater portion of your wealth to your heirs?

Let the *Seeds of Change 2001 Tax Guide* show you how!

## Special tax issue

The beginning of a new year is the traditional time to review one's finances and tax situation.

In that spirit, we've provided this review of the new tax legislation and a look at the powerful tax-free advantages of municipal bond investing.



## Attention small business owners

If you don't have a tax-deferred retirement plan for your business, now may be the perfect time to set one up because the new tax law includes nonrefundable income tax credits to help you defray the cost of installing and administering a new plan: 50% of the first \$1,000 of expenses for each of the first three years.

What's more, your business will benefit from lower tax bills because plan contributions are tax deductible.



## A smarter Education IRA

Beginning January 1, 2002, the annual contribution limit on Education IRAs will increase from \$500 to \$2,000.

But that's not all. Effective January 2002, Education IRAs, previously limited to post-secondary school expenses, can be used to pay for state-accredited elementary and secondary school educational expenses.

Such expenses include tuition fees; academic tutoring; special needs services; books; supplies; equipment; room and board expenses; uniforms; transportation; educational computers, technology or equipment; and Internet access.

# Playing by the rules: Highlights of tax relief

## Life after work

One of the biggest benefits of the new legislation is the opportunity to increase your workplace retirement savings. Under the new legislation, your contribution limit in 2002 for 401(k), SAR-SEP and 403(b) plans will increase to \$11,000 and rise by \$1,000 each year until it reaches \$15,000 in 2006. For SIMPLE IRA and 401(k) plans, the limit will increase to \$7,000 and rise by \$1,000 each year until the limit reaches \$10,000 in 2005.

**A dual benefit: The new rules give you the opportunity to reduce your taxable earnings while increasing your annual retirement savings.**

## Let's play catch-up

Over 50? Baby boomers concerned about outliving their incomes can now play "catch up" — the affordable way. Beginning in 2002, pre-retirees aged 50 and up can supplement their workplace savings plans and IRAs with additional contributions.

Calendar year	401(k), 403(b), 457 and SAR-SEP plans		SIMPLE IRA and 401(k) plans		Traditional and Roth IRAs	
	Contribution limit	"Catch-up" limit	Contribution limit	"Catch-up" limit	Contribution limit	"Catch-up" limit
2001	\$10,500	N/A	\$6,500	N/A	\$2,000	N/A
2002	\$11,000	\$1,000	\$7,000	\$500	\$3,000	+\$500
2003	\$12,000	\$2,000	\$8,000	\$1,000	\$3,000	+\$500
2004	\$13,000	\$3,000	\$9,000	\$1,500	\$3,000	+\$500
2005	\$14,000	\$4,000	\$10,000 <sup>2</sup>	\$2,000	\$4,000	+\$500
2006	\$15,000 <sup>1</sup>	\$5,000 <sup>1</sup>		\$2,500 <sup>1</sup>	\$4,000	+\$1000
2007					\$4,000	+\$1000
2008					\$5,000 <sup>3</sup>	+\$1000 <sup>3</sup>

<sup>1</sup>2007 and beyond, potential increases with inflation in \$500 increments

<sup>2</sup>2006 and beyond, potential increases with inflation in \$500 increments

<sup>3</sup>2009 and beyond, potential increases with inflation in \$500 increments

## Take this portable with you

Do you have more than one retirement account?

According to the Labor Department, Americans change employers every 3.5 years. That means it's likely you'll have different retirement accounts and even different types of plans somewhere along the line.

With the new retirement laws taking effect in 2002, you can now consolidate money from different types of retirement accounts if allowed by your employer. These "portability" provisions were designed to help simplify your retirement planning and make it easier for you to manage your accumulated savings whether you're still working — or are in retirement.

Now, you can be a teacher, baker, candlestick maker, or government employee — and still easily consolidate your IRAs, 403(b), 401(k), 457 plan, SIMPLE IRA and 401(k) into one flexible, consolidated portfolio.



## Passing it on...

Overall, the changes made to estate taxes will have a dramatic impact on those who want to pass on more of their wealth to their heirs.

Beginning in 2002, the Act increases the estate tax exemption to \$1 million, up from the 2001 amount of \$675,000 and lowers the top estate tax rate to 50%, down from 55%.

In year 2011, estate tax rates and exemption amounts are expected to return to the same levels as before the enactment.

Estate tax exemptions will increase five-fold — a potential windfall to heirs.

Calendar year	Estate tax exemption	Highest estate and gift tax rate
2001	\$675,000	55%
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	Estate taxes repealed	Maximum gift tax rate will be top individual tax rate
2011	\$675,000	55%

## Take a break with municipal bond funds



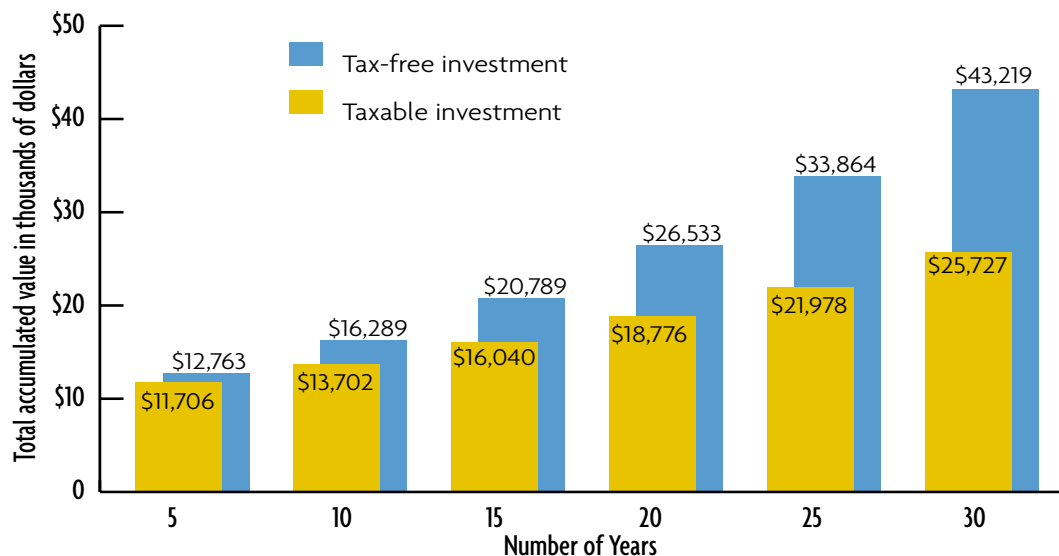
Even with all the excitement about the new tax provision rules, Tax Freedom Day still may be later than you would like.

Tax Freedom Day — developed by the non-profit Tax Foundation — is the date on which it's estimated that the average worker would have earned enough to pay his/her taxes for the year. In Hawaii, for example, the average person must work 116 days out of the year just to pay for federal, state and local taxes.

Through investments in municipal bond funds you can ease your tax bite, because interest earned from municipal bonds is free from federal income tax.<sup>1</sup>

Through the power of tax-free compounding, money that would have gone to taxes is money you can reinvest that may continue to compound over time, providing greater growth potential.

This chart illustrates the growth of a \$10,000 investment with a 5% annual return rate and a 36% tax bracket.



This hypothetical example illustrates the growth of a taxable and tax-free investment and does not reflect the performance of any Pacific Capital Fund. Please refer to the prospectus for actual fund performance.

<sup>1</sup>Depending on state and local taxes and your tax status, a portion of your income may be subject to the federal alternative minimum tax.

### Did you know?

A municipal bond fund is an IOU issued by a state, city or local government to fund public projects, such as hospitals, schools, recreational facilities and much more.

So, while you're investing for your future, you're also helping to finance and support many important public works projects throughout Hawaii.

Here are just a few examples of recent municipal bond holdings in the Pacific Capital Tax Free Funds.<sup>2</sup>

- Honolulu Harbor, Oahu 2.39%
- Honolulu International and Interisland Airports, Oahu 5.48%
- Queens Hospital, Oahu 1.84%
- Kapiolani Medical Center 1.28%

<sup>2</sup> Holdings are as of 11/30/01. The Funds' holdings are subject to change at any time.

Reminder: You have until April 15th to make your 2001 IRA contribution...

## Coming to a mail box near you

Clip and save this helpful checklist of upcoming tax season mailings.

**Form 1099-DIV**

For taxable distributions and backup withholding  
1/31/02

**Form 1099-B**

For proceeds from share sales or exchanges and backup withholding  
1/31/02

**Form 1099-R**

For retirement distributions and withholding  
1/31/02

**Cost Basis Statement**

For shares redeemed or exchanged in 2001  
1/31/02

**Form 1042-S**

For foreign withholding and taxable distributions as a non-resident alien  
3/31/02

**Form 5498**

For contributions or rollovers to IRAs for 2001  
5/31/02

**Tax Savings Report**

For non-taxable dividends  
1/31/02

**Form 2439**

For undistributed long-term capital gains  
1/31/02

# Consider a diversified portfolio of Pacific Capital Funds

With 12 funds to choose from, the Pacific Capital Family of Funds was created to help investors like you meet the many challenges of investing. Each Fund is managed separately according to its own distinctive, well-defined investment objective and occupies a designated place on the risk and reward spectrum. When combined together, these distinctive management styles provide you with true diversification.



Potential  
Higher  
Return

Potential  
Higher  
Risk

Potential  
Lower  
Return

Potential  
Lower  
Risk

- New Asia Growth Fund
- International Stock Fund
- Small Cap Fund
- Growth Stock Fund
- Growth and Income Fund
- Value Fund
- Balanced Fund
- Diversified Fixed Income Fund
- Short-Intermediate U.S. Government Securities Fund
- Ultra Short Government Fund
- Tax-Free Securities Fund
- Tax-Free Short-Intermediate Securities Fund

The investment professionals of Pacific Century Investment Services and Pacific Century Trust can show you how to create a well-diversified portfolio to meet your unique investment goals and personal risk tolerance.

For more information contact:  
Pacific Century Investment Services  
at 800-392-0443  
or Pacific Century Trust  
at 800-272-7262

 **Pacific Capital Funds**

MANAGED BY THE ASSET MANAGEMENT GROUP OF

 **Bank of Hawaii**

To obtain a prospectus, which includes fees, expenses and sales charge information, on any Pacific Capital fund, please call Pacific Capital Funds at 1-800-258-9232. Please read the prospectus carefully before investing or sending money.

The Pacific Capital Funds are managed by the Asset Management Group of Bank of Hawaii, which receives fees for such services. BISYS Fund Services, Distributor.

**Mutual Funds: are not FDIC Insured**  
• May Lose Value • Have No Bank Guarantee