FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1997-03-10** | Period of Report: **1996-12-31**
SEC Accession No. 0000091155-97-000141

FILER

SMITH BARNEY INCOME FUNDS
CIK:**764624**| State of Incorp.:**MA** | Fiscal Year End: **0731**
Type: **N-30D** | Act: **40** | File No.: **811-04254** | Film No.: **97553440**

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ANNUAL REPORT

1996
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[GRAPHIC]

SMITH BARNEY
PREMIUM TOTAL
RETURN FUND

December 31, 1996

[LOGO] SMITH BARNEY MUTUAL FUNDS

Investing for your future.
Every day.

SMITH BARNEY PREMIUM TOTAL RETURN FUND

Dear Shareholder:

We are pleased to present to you the Smith Barney Premium Total Return Fund's annual report for the period ended December 31, 1996. An annual report is being sent to you now, in addition to the usual September mailing, because the Fund's Board of Trustees approved changing its fiscal year end from July 31 to December 31. In the future, you can expect the Fund's annual report about this time each year.

In this report, we comment on the period's prevailing economic and market conditions and describe our portfolio strategy. A detailed summary of performance can be found in the appropriate sections that follow in the report.

Fund Performance Overview

For the period of August 1, 1996 through December 31, 1996, the Smith Barney Premium Total Return Fund had a total return of 13.80% for Class A shares. During this time, the U.S. stock market, as measured by the Standard & Poor's 500 Index ("S&P 500"),* had a total return of 11.68%. In addition, the Fund paid monthly dividends which totaled $0.63 per Class A share over the same time period. For the year ended December 31, 1996, the Fund posted a total return of 20.67% for Class A shares.

We are pleased by the Premium Total Return Fund's relative performance versus the S&P 500 during the reporting period because the Fund is meeting one of its key policies, which is to provide shareholders with the potential benefits of stock investing with less risk than investing in the overall stock market. The Premium Total Return Fund invests primarily in dividend-paying common stocks and employs a conservative and defensive investment strategy which may cause it to underperform in a rising stock market but should experience smaller losses when the stock market declines. One of the key elements of the Fund's conservative and defensive investment strategy, which is explained in greater detail later on in this letter, involves the use of S&P 500 Index call options which help to reduce the volatility of the Fund's net asset value (NAV).

Over the long term, the Premium Total Return Fund's defensive strategy has generated a competitive total return versus the S&P 500. For the five-year period ended December 31, 1996, the Fund had an average total return for

* The Standard & Poor's 500 Stock Index is an unmanaged capitalization weighted index of 500 widely held common stocks.

Class B shares of 13.52%, which compares with the S&P 500's annual total return of 15.20% during the same time period. In addition to providing shareholders with competitive total returns over the long term, the Fund continues to make monthly distributions of approximately $0.10 per Class B share (a portion of which may include capital gains and/or return of capital). Additional information about the Smith Barney Premium Total Return Fund's distribution policy can be found immediately after this letter

Fund's Investment Strategy

The Smith Barney Premium Total Return Fund seeks total return by investing in a well-diversified portfolio of primarily dividend-paying common stocks. Historically, dividend-paying common stocks have offered relatively low volatility.

In selecting individual stocks, the Fund follows a "bottom up" value approach to stock investing, which means the Fund generally does not rely on economic or market forecasting, but instead selects individual stocks based on whether the stock is available at a reasonable price, the issuing company is fundamentally healthy and whether the company's business is improving.

The Fund's investment process usually begins with a close examination of all public information available on a particular company. The Fund then conducts extensive company and industry research to determine whether a company's business momentum is positive, negative or neutral. In addition to conducting extensive research, the Fund also considers traditional measurements of a stock's relative value in order to identify undervalued stocks. Another way the Fund tries to manage risk and further limit potential portfolio volatility is through diversification. At the end of December, the Fund owned approximately 150 securities, representing a wide range of companies and industries.

A Defensive Hedging Strategy

The Fund's defensive hedging strategy, which seeks to limit the volatility of the Fund's NAV, involves writing (or selling) index call options to hedge a portion of the portfolio. The Fund's defensive hedging strategy has been used in varying degrees during the past twelve months.

The Fund's defensive hedging strategy means that an outside investor has purchased index call options from the Fund. When the Fund sells (or writes) these options, it collects a premium from the investor who purchases them. If the market goes down, the Fund has sold this market exposure and the net gain to the Fund is positive in the form of premium income. If the market goes up (as it has over the last twelve months), the Fund loses the increase in value of a position on the portfolio as a whole because an outside investor who purchased

the option contracts from the Fund will exercise the contract and earn a portion of what the market has gained.

In 1996, the Fund's defensive hedging strategy slightly hurt its relative performance versus the S&P 500 due to the manager's stock selection. However, when the broad market goes down (as it did dramatically in July 1996), the Fund's defensive hedging strategy helped protect the value of the portfolio from the market decline. For example, the U.S. stock market, as measured by the S&P 500, has experienced only one down year (1990) since 1981, when the index had a total return of -3.17%. For the same year, the Premium Total Return Fund's Class B shares (the only class of shares offered prior to November of 1991) generated a total return of 2.02%.

Over the long term, the Fund's defensive hedging strategy will potentially help to reduce NAV volatility and protect the portfolio when the market declines. Our goal is to participate in rising markets while safeguarding principal in falling markets. The trade off is that the Fund's performance may lag the broad market in periods when stock prices rise rapidly. Yet, there will be times like this past year when the Fund performs roughly in line with the broad market. However, the Premium Total Return Fund is designed to be an appropriate vehicle for investors who want greater protection of principal in a declining market and who are willing to accept less total return potential in a rising market.

Throughout 1996, the Premium Total Return Fund continued to emphasize the stocks of financial companies, particularly small-to-middle capitalization insurance companies based both in the U.S. and offshore because they are reasonably priced and have high earnings stability. In addition, the Fund maintained its underweighting in cyclical company stocks in the basic industries, capital goods and consumer durables sectors because of our belief that their ability to maintain earnings growth is questionable. At the end of 1996, the Fund's ongoing underweighting in technology stocks was even more pronounced than at the end of 1995 because of our concerns that many of these companies may not enjoy the same profit margins in the future than they have had in the past. Looking ahead at 1997, we will focus on the stocks of high-quality companies that, in our view, are fairly valued or undervalued and show positive business momentum.

Market Overview and Outlook

Though most stock prices ended 1996 on a declining note, the U.S. stock market, as measured by the S&P 500, continued to perform well in the fourth quarter of

1996 and generated a total return of 8.33%, bringing the S&P 500's total return in 1996 to 22.95%. In the fourth quarter, large capitalization stocks outperformed small capitalization stocks, continuing a trend that began after July's brief market correction. For example, in comparison to the S&P 500, the

Russell 2000 (a common benchmark of small capitalization stocks) generated a total return of 5.20% in the fourth quarter.

We continue to believe that the stock market is trading at extremely high valuation levels. In our view, the market's performance in 1997 will be greatly influenced by the rate of growth of corporate earnings. As we have stated in the past, we do not accept the view that 20% or higher return on equities and 12%-15% corporate earnings growth rates are permanent features of the U.S. economy. Historically, stock prices have risen in line with corporate earnings growth rates. While the consensus on Wall Street is for corporate earnings to grow at an annual rate of roughly 14%, we believe this estimate is too high. We think the growth rate in corporate earnings will be more in the 7% range and this is a reasonable expectation for how the stock market may perform in 1997.

Moreover, stock market volatility has risen markedly of late. The uncertainty regarding where the economy and interest rates may be heading, combined with expectations for slowing corporate earnings growth, has also exacerbated volatility. Against this backdrop, we believe the Premium Total Return Fund's conservative strategy makes it well positioned to meet the challenges of a more turbulent market.

In closing, we would like to thank you for your investment in the Smith Barney Premium Total Return Fund. We look forward to continuing to serve your investment needs.

Sincerely,

/s/ Heath B. McLendon /s/ Harry J. Rosenbluth

Heath B. McLendon
Chairman and
Chief Executive Officer

Harry J. Rosenbluth
Investment Officer

January 9, 1997

Smith Barney Premium Total
Return Fund Distribution Policy

A mutual fund pays dividends to satisfy one of the requirements to qualify as a regulated investment company and to avoid paying income tax at the fund level. As such, the Smith Barney Premium Total Return Fund must distribute (as do all mutual funds) at least 90% of its investment company taxable income, but will generally distribute substantially all of its ordinary and net capital gains in order to avoid any federal income or excise taxes. As a regulated investment company, the tax benefits of net long-term capital gains can be passed through to shareholders. A mutual fund's distributions at calendar year-end generally are designed to ensure that substantially all earned income and net capital gains have been distributed to shareholders; which could cause these amounts to differ from the regular distributions. Based on its objectives, an individual fund may, as a result of its distribution policy, return a portion of the shareholders' principal in the form of a return of capital, which may not be considered taxable income.

The Smith Barney Premium Total Return Fund's distribution policy is designed to provide an attractive level of monthly distributions. Since 1989, the Fund has paid out approximately $0.10 per share each month. The Fund's distribution strategy takes into account the long-term total return potential of its investment in equities. Over time, the Fund has been able to distribute income as well as provide its shareholders with moderate growth of principal. The Smith Barney Premium Total Return Fund meets its distribution objective by paying out to shareholders substantially all dividends, interest and net capital gains earned over the course of the year. In certain years, the Fund's distributions may also supplement this income with a return of capital in order to maintain the fixed payout. Each year, shareholders of the Fund receive a 1099 federal tax form that indicates the amount of the distributions which represented ordinary income (dividends, interest and short-term capital gains), long-term capital gains and return of capital.

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Historical Performance -- Class A Shares
==

<TABLE>
<CAPTION>

Period Ended	Net Asset Value Beginning of Period	Net Asset Value End of Period	Income Dividends	Capital Gain Distributions	Return of Capital	Total Returns(1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
12/31/96+++	$17.40	$19.14	$0.16	$0.47	$0.00	13.80%+
7/31/96	16.33	17.40	0.37	0.91	0.00	14.76
7/31/95	15.69	16.33	0.43	0.14	0.71	12.92
7/31/94	15.65	15.69	0.55	0.52	0.21	8.65
Inception*-7/31/93	15.15	15.65	0.20	0.49	0.33	10.31+
Total			$1.71	$2.53	$1.25	

</TABLE>

Historical Performance -- Class B Shares

<TABLE>
<CAPTION>

Period Ended	Net Asset Value Beginning of Period	Net Asset Value End of Period	Income Dividends	Capital Gain Distributions	Return of Capital	Total Returns(1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
12/31/96+++	$17.40	$19.14	$0.12	$0.47	$0.00	13.57%+
7/31/96	16.33	17.40	0.29	0.91	0.00	14.21
7/31/95	15.69	16.33	0.34	0.14	0.72	12.36
7/31/94	15.65	15.69	0.49	0.52	0.20	8.12
7/31/93	15.21	15.65	0.19	0.63	0.44	11.68
7/31/92	14.26	15.21	0.22	0.00	0.98	15.68
7/31/91	13.30	14.26	0.24	0.00	0.96	17.53
7/31/90	13.98	13.30	0.22	0.00	1.06	4.62
7/31/89	12.90	13.98	0.89	0.26	0.33	21.49
7/31/88	14.47	12.90	0.18	1.28	0.00	0.21
7/31/87	14.52	14.47	0.28	1.42	0.00	12.07
Total			$3.46	$5.63	$4.69	

</TABLE>

Historical Performance -- Class C Shares

<TABLE>
<CAPTION>

Period Ended	Net Asset Value Beginning of Period	Net Asset Value End of Period	Income Dividends	Capital Gain Distributions	Return of Capital	Total Returns(1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
12/31/96+++	$17.41	$19.15	$0.12	$0.47	$0.00	13.58%+
7/31/96	16.33	17.41	0.29	0.91	0.00	14.30
7/31/95	15.69	16.33	0.35	0.14	0.71	12.36
7/31/94	15.65	15.69	0.49	0.52	0.20	8.12
Inception*-7/31/93	15.45	15.65	0.04	0.09	0.07	2.60+
Total			$1.29	$2.13	$0.98	

</TABLE>

Historical Performance -- Class Y Shares

<TABLE>
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Period Ended	Net Asset Value Beginning of Period	Net Asset Value End of Period	Income Dividends	Capital Gain Distributions	Return of Capital	Total Returns(1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
12/31/96+++	$17.42	$19.17	$0.18	$0.47	$0.00	13.95%+
Inception*-7/31/96	17.57	17.42	0.21	0.46	0.00	2.93+
Total			$0.39	$0.93	$0.00	

</TABLE>

IT IS THE FUND'S POLICY TO DISTRIBUTE DIVIDENDS MONTHLY AND CAPITAL GAINS, IF ANY, ANNUALLY.

Average Annual Total Return

<TABLE>
<CAPTION>

	Without Sales Charge(1)			
	Class A	Class B	Class C	Class Y
<S>	<C>	<C>	<C>	<C>
Period Ended 12/31/96+++	13.80%+	13.57%+	13.58%+	13.95%+
Year Ended 12/31/96	20.67	20.09	20.13	N/A
Five Years Ended 12/31/96	N/A	13.52	N/A	N/A
Ten Years Ended 12/31/96	N/A	12.76	N/A	N/A
Inception* through 12/31/96	14.69	13.40	14.37	16.75

</TABLE>

<TABLE>
<CAPTION>

	Without Sales Charge(2)			
	Class A	Class B	Class C	Class Y
<S>	<C>	<C>	<C>	<C>
Period Ended 12/31/96+++	8.08%+	8.57%+	12.58%+	13.95%+
Year Ended 12/31/96	14.64	15.09	19.13	N/A
Five Years Ended 12/31/96	N/A	13.40	N/A	N/A
Ten Years Ended 12/31/96	N/A	12.76	N/A	N/A
Inception* through 12/31/96	13.28	13.40	14.37	16.75

</TABLE>

Cumulative Total Return

<TABLE>
<CAPTION>

	Without Sales Charge(1)
<S>	<C>
Class A (Inception* through 12/31/96)	76.73%
Class B (12/31/86 through 12/31/96)	232.23

Class C (Inception* through 12/31/96)	61.83
Class Y (Inception* through12/31/96)	16.75

</TABLE>

(1) Assumes reinvestment of all dividends and capital gain distributions, if any, at net asset value and does not reflect the deduction of the applicable sales charges with respect to Class A shares or the applicable contingent deferred sales charges ("CDSC") with respect to Class B and C shares.

(2) Assumes reinvestment of all dividends and capital gain distributions, if any, at net asset value. In addition, Class A shares reflect the deduction of the maximum initial sales charge of 5.00% and Class B shares reflect the deduction of a 5.00% CDSC, which applies if shares are redeemed within one year from initial purchase and declines thereafter by 1.00% per year until no CDSC occurs. Class C shares reflect the deduction of a 1.00% CDSC, which applies if shares are redeemed within the first year of purchase.

+++ For the period from August 1, 1996 to December 31, 1996, which reflects a change in the fiscal year end of the Fund.

\+ Total return is not annualized, as it may not be representative of the total return for the year.

* Inception dates for Class A, B, C and Y shares are November 6, 1992, September 16, 1985, June 1, 1993 and February 7, 1996, respectively.

Historical Performance (unaudited)

Growth of $10,000 Invested in Class B Shares
of the Smith Barney Premium Total Return Fund
vs. the Standard & Poor's 500 Index+

December 1986 -- December 1996

[GRAPHIC]

<TABLE>
<CAPTION>

<S>	Smith Barney Premium Total Return Fund	S&P 500 Index
12/86	$ 10,000	$ 10,000
12/87	9,079	10,525
12/88	11,416	12,269
12/89	13,398	16,150
12/90	13,674	15,648
12/91	17,623	20,406
12/92	19,843	21,960
12/93	22,062	24,167
12/94	22,707	24,485
12/95	27,665	33,675
12/96	33,223	38,816

</TABLE>

\+ Hypothetical illustration of $10,000 invested in Class B shares on December 31, 1986, assuming reinvestment of dividends and capital gains, if any, at net asset value through December 31, 1996. The Standard & Poor's 500 Index is an index composed of widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and over-the-counter market. Figures for the index include reinvestment of dividends. The index is unmanaged and is not subject to the same management and trading expenses as a mutual fund. The performance of the Fund's other classes may be greater or less than the Class B shares' performance indicated on this chart, depending on whether greater or lesser sales charges and fees were incurred by shareholders investing in other classes.

All figures represent past performance and are not a guarantee of future results. Investment returns and principal value will fluctuate, and redemption value may be more or less than the original cost. No adjustment has been made for shareholder tax liability on dividends or capital gains.

Portfolio Highlights (unaudited) December 31, 1996

Portfolio Breakdown

[PIE CHART]

December 1986 -- December 1996

Banking & Financial Services	17.5%
Utilities	9.5%
Insurance	10.1%
Consumer Services	7.0%
Capital Goods	2.8%
Energy	9.4%
Healthcare	7.5%
Tobacco	9.2%
Other Common Stocks, Preferred Stocks, Corporate Bonds and Convertible Bond	13.5%
Repurchase Agreements	13.5%

Top Ten Common Stock Holdings

Company	Percentage of Total Investments
Loews Corp.	4.9%
Student Loan Marketing Association	4.2
Phillip Morris Cos., Inc.	3.7
Bristol-Myers Squibb Co.	3.0
Lehman Brothers Holding Inc.	2.3
Republic of New York Corp.	2.0
Telefonica Espana S.A. ADR	1.9
Sprint Corp.	1.9
Repsol S.A. ADR	1.5
J.P. Morgan & Co., Inc.	1.5

Schedule of Investments December 31, 1996

<TABLE>
<CAPTION>

SHARES	SECURITY	VALUE
COMMON STOCKS -- 81.1%		
Banking & Financial-Services -- 14.7%		
<C>	<S>	<C>
552,692	Bank of Boston Corp.	$35,510,461
1,000,000	Cal Fed BanCorp Inc.*	24,500,000
600,000	Dean Witter Discover & Co.+++	39,750,000
142,900	Federal Home Loan Mortgage Corp.	15,736,863
462,100	J.P. Morgan & Co., Inc.	45,112,512
143,700	JSB Financial Inc.	5,460,600
2,249,500	Lehman Brothers Holding Inc.+++	70,578,063
140,400	PHH Corp.	6,037,200
484,140	PNC Bank Corp.	18,215,766
766,900	Republic of New York Corp.+++	62,598,212
1,382,500	Student Loan Marketing Association+++	128,745,313
		452,244,990
Capital Goods -- 2.8%		
1,500,000	Allegheny Teledyne Inc.	34,500,000
51,000	Emerson Electric Co.	4,934,250
120,938	Lockheed Martin Corp.	11,065,827
258,100	Lubrizol Corp.	8,001,100
280,188	Martin Marietta Materials	6,514,371
400,000	Raytheon Co.	19,250,000
6,000	Textron Inc.	565,500
		84,831,048
Consumer Durables -- 1.9%		
140,000	Borg-Warner Automotive Inc.	5,390,000
924,300	Digital Equipment*	33,621,413
876,100	Volvo Aktie Bolget, Sponsored ADR	19,055,175
		58,066,588
Consumer Non-Durables -- 2.2%		
305,300	Dial Corp.	4,503,175
458,600	Nestle S.A., Sponsored ADR	24,420,450
18,260	Nestle S.A., Sponsored ADR+	974,628

482,000	Sara Lee Corp.	17,954,500
394,300	Tupperware Corp.	21,144,337
		68,997,090
Consumer Services -- 7.0%		
3	Acnielsen Corp.	45
210,000	Alberto Culver Co., Class A Shares	8,662,500
600,000	American Stores Co.	24,525,000
308,900	Bowne & Co., Inc.	7,606,662
678,600	Comsat Corp.	16,710,525
196,500	Deluxe Corp.	6,435,375
789,100	Dun & Bradstreet Corp.	18,741,125

</TABLE>

See Notes to Financial Statements.

<TABLE>
<CAPTION>

SHARES	SECURITY	VALUE
Consumer Services -- 7.0% (continued)		
<C>	<S>	<C>
748,600	H & R Block Inc.	$ 21,709,400
949,378	Limited Inc.	17,444,821
400,000	Linens N' Things Inc.*	7,850,000
268,312	Luby's Cafeterias Inc.	5,332,701
370,300	Mercantile Stores Co. Inc.	18,283,563
394,300	Premark International Inc.	8,773,175
1,000,000	Rite Aid Corp.	39,750,000
221,500	Sbarro Inc.	5,648,250
171,466	Sears, Roebuck & Co.	7,908,869
		215,382,011
Diversified Operations -- 0.8%		
789,100	Cognizant Corp.	26,040,300
Energy -- 9.4%		
117,700	Amoco Corp.	9,474,850
141,751	British Petroleum PLC ADR	20,040,048
600,000	Elf Aquitaine - Sponsored ADR	27,150,000
311,400	Exxon Corp.+++	30,517,200
240,100	Mobil Oil Corp.+++	29,352,225
1,242,800	Repsol S.A., Sponsored ADR	47,381,750
322,500	Shell Transport & Trading ADR	33,015,937
200,000	Texaco Inc.	19,625,000
278,200	Tosco Corp.	22,012,575
1,466,200	Trizec Hahn Corp.	32,256,400
614,448	Ultramar Diamond Shamrock CP	19,431,918
		290,257,903
Forest Products -- 1.4%		
550,000	Boise Cascade Corp.	17,462,500
606,000	Champion International Corp.+++	26,209,500
		43,672,000
Healthcare -- 7.5%		
253,700	Abbott Labs, Inc.	12,875,275
909,600	Astra AB, Class A Shares ADR	44,570,400
847,400	Bristol-Myers Squibb Co.+++	92,154,750
1,100,000	Glaxo Welcome PLC, Sponsored ADR+++	34,925,000
333,000	Pharmacia & Upjohn Inc.	13,195,125
521,900	Schering Plough Corp.	33,793,025
		231,513,575
Insurance -- 10.1%		
731,300	Ace Ltd.	43,969,413
745,100	Allmerica Financial Corp.	24,960,850
467,000	Allmerica Property & Casualty Companies, Inc.	14,185,125
299,750	Allstate Corp.	17,348,031

</TABLE>

See Notes to Financial Statements.

Schedule of Investments (continued) December 31, 1996

<TABLE>
<CAPTION>

SHARES	SECURITY	VALUE
Insurance -- 10.1% (continued)		
<C>	<S>	<C>
275,200	American International Group Inc.	$ 29,790,400
350,450	Aon Corp.	21,771,706
156,000	CIGNA Corp.	21,313,500
464,600	Exel Ltd.	17,596,725
215,000	Financial Security Assurance Holdings Inc.	7,068,125
364,000	GCR Holdings Ltd.	8,099,000
100,600	Horace Mann Educators Co.	4,061,725
297,500	IPC Holdings Ltd.	6,656,563
308,900	John Alden Financial Corp.	5,714,650
253,300	Mid Ocean Ltd.	13,298,250
251,600	Partnerre Ltd.	8,554,400
319,000	Prudential Reinsurance Holdings Corp.	9,171,250
272,300	St. Paul Cos., Inc.	15,963,587
205,000	Terra Nova Holdings Ltd. (Bermuda)	4,407,500
603,500	TIG Holdings Inc.	20,443,563
123,200	Transatlantic Holdings Inc.	9,917,600
348,100	Western National Corp.	6,700,925
1,800	Zurich Reinsurance Centre Holdings	56,250
		311,049,138
Real Estate -- 1.7%		
200,000	Ambassador Apartments Inc.	4,725,000
89,200	Associated Estates Realty Corp.	2,118,500
120,700	Avalon Properties Inc.	3,470,125
142,433	Camden Property Trust	4,077,145
154,800	Charles E. Smith Residential Realty Inc.	4,527,900
328,800	Equity Inns Inc.	4,274,400
286,300	Mid-America Apartment Communities	8,266,912
304,900	RFS Hotels Investment Inc.	6,021,775
201,800	Storage Trust Realty	5,448,600
160,000	Summit Properties Inc.	3,540,000
250,600	Wellsford Residential Property Trust	6,077,050
		52,547,407
Telecommunication Equipment -- 1.6%		
2,690,300	Alcatel Alsthom CGE - Sponsored ADR	43,044,800
141,462	Lucent Technologies Inc.	6,542,618
		49,587,418
Tobacco -- 9.2%		
900,000	B.A.T. Industries PLC, Sponsored ADR	14,850,000
1,604,900	Loews Corp.+++	151,261,825
1,002,500	Phillip Morris Cos., Inc.+++	112,906,563
100,000	RJR Nabisco Holdings Corp.	3,887,500
		282,905,888

</TABLE>

See Notes to Financial Statements.

Schedule of Investments (continued) December 31, 1996

<TABLE>
<CAPTION>

SHARES	SECURITY	VALUE
Transportation -- 1.3%		
<C>	<S>	<C>
1,270,900	Canadian Pacific Ltd.	$ 33,678,850
75,500	Pittston Burlington Group Inc.	1,510,000
94,400	Stolt Nielson S.A.	1,781,800
127,400	Stolt Nielson S.A. ADR	2,388,750

		39,359,400
Utilities -- 9.5%		
2,306,100	Centerior Energy Corp.	24,790,575
835,500	CMS Energy Corp.+++	28,093,687
711,000	Entergy Corp.	19,730,250
339,600	Illinova Corp.	9,339,000
575,000	Nynex Corp.	27,671,875
864,300	Pinnacle West Capital Corp.	27,441,525
475,000	Portland General Corp.	19,950,000
8,500	Public Service New Mexico	166,813
1,481,000	Sprint Corp.+++	59,054,875
216,300	Telebras - Sponsored ADR	16,546,950
867,300	Telefonica Espana S.A. ADR	60,060,525
		292,846,075
	TOTAL COMMON STOCKS (Cost -- $1,806,769,410)	2,499,300,831
PREFERRED STOCKS -- 4.1%		
Banking & Financial Services -- 2.8%		
100,000	Allstate Corp., Convertible 6.765%+++	4,725,000
2,500	BankUnited Financial, Convertible 10.250%+	2,500,000
80,000	Criimi Mae Inc., Series B, Convertible 10.875%+++	2,320,000
760,000	Glendale Federal Bank, Federal Savings Bank of California, Convertible, Series E, Exchange 8.750%+++	44,650,000
304,767	Riggs National Corp., Washington, D.C., Series B, Exchange 10.750%+++	8,685,860
250,000	Salomon Inc., Convertible 6.750%+++	7,500,000
459,700	Time Warner Financial Corp.+++	17,813,375
		88,194,235
Industrial -- 0.3%		
305,000	Bowater Inc.,Depository Shares,Convertible, Series B, Exchange 7.000%+++	9,302,500
Real Estate -- 1.0%		
200,000	First Washington Realty Inc., Series A, Exchange 9.750%+ +++	5,450,000
243,000	Prime Retail Inc., Series A, Exchange 10.500%+++	5,832,000
77,700	Security Capital Pacific Trust+++	2,379,562
400,000	Walden Residential Properties Inc., Series B, Exchange 9.160%+++	11,550,000

</TABLE>

See Notes to Financial Statements.

Schedule of Investments (continued) December 31, 1996

<TABLE>
<CAPTION>

SHARES	SECURITY	VALUE
Real Estate -- 1.0% (continued)		
<C>	<S>	<C>
200,000	Walden Residential Properties Inc., Convertible 9.200%	$ 4,800,000
		30,011,562
	TOTAL PREFERRED STOCKS (Cost -- $96,105,904)	127,508,297

</TABLE>

<TABLE>
<CAPTION>

FACE AMOUNT	SECURITY	VALUE
CORPORATE BONDS -- 1.2%		
Financial -- 0.2%		
<C>	<S>	<C>
$2,000,000	Mego Mortgage, 12.500% due 12/1/01	2,037,500

3,000,000	Wilshire Financial Services, 13.000% due 1/1/04	3,022,500
		5,060,000
Gas Transmission -- 0.2%		
	Columbia Gas Systems Inc., Debentures:	
774,000	6.390% due 12/28/00	769,162
771,000	6.610% due 11/28/02	770,036
771,000	6.800% due 11/28/05	761,363
771,000	7.050% due 11/28/07	754,616
771,000	7.320% due 11/28/10	755,580
771,000	7.420% due 11/28/15	741,124
771,000	7.620% due 11/28/25	740,160
		5,292,041
Industrial -- 0.8%		
5,635,000	Comcast Corp., 9.375% due 5/15/06	5,860,400
6,000,000	Tenet Healthcare Corp., 10.125% due 3/1/05	6,637,500
4,915,000	Paging Network, 8.875% due 2/1/06	4,706,112
3,000,000	Riveria Holdings Corp., First Mortgage, 11.000% due 12/31/02	3,063,750
6,000,000	Rogers Cable Systems Inc., 10.000% due 3/15/05	6,427,500
		26,695,262
	TOTAL CORPORATE BONDS (Cost -- $35,460,767)	37,047,303
CONVERTIBLE BONDS -- 0.1%		
2,500,000	Ashanti Capital, 5.500% due 3/15/03	2,106,250
1,500,000	Pacific Concord Financial, 4.750% due 12/10/98+	1,365,000
	TOTAL CONVERTIBLE BONDS (Cost -- $4,000,000)	3,471,250
	SUB-TOTAL INVESTMENTS (Cost -- $1,942,336,081)	2,667,327,681

</TABLE>

See Notes to Financial Statements.

<TABLE>
<CAPTION>

FACE AMOUNT	SECURITY	VALUE
REPURCHASE AGREEMENTS -- 13.5%		
<C>	<S>	<C>
$ 85,996,000	Chase Manhattan Bank, 6.500% due 1/2/97; Proceeds at maturity -- $86,027,054; (Fully collateralized by U.S. Treasury Notes, 5.875% due 10/31/98; Market value -- $87,820,758)	$ 85,996,000
59,450,000	Goldman Sachs & Co., 6.520% due 1/2/97; Proceeds at maturity -- $59,471,534; (Fully collateralized by U.S. Treasury Notes, 7.125% due 9/30/99; Market value -- $60,688,720)	59,450,000
270,000,000	Morgan Stanley, 6.250% due 1/2/97; Proceeds at maturity -- $270,093,750; (Fully collateralized by U.S. Treasury Notes, 6.125% due 7/31/00; Market value -- $275,793,375)	270,000,000
	TOTAL REPURCHASE AGREEMENTS (Cost -- $415,446,000)	415,446,000
	TOTAL INVESTMENTS -- 100% (Cost -- $2,357,782,081**)	$3,082,773,681

</TABLE>

* Non-income producing security.
+++ Security segregated by Custodian to cover written call options.
\+ Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from

registration, normally to qualified institutional buyers.
** Aggregate cost for Federal income tax purposes is substantially the same.

See Notes to Financial Statements.

Statement of Assets and Liabilities	December 31, 1996

<TABLE>

<S>	<C>
ASSETS:	
Investments, at value (Cost--$1,942,336,081)	$2,667,327,681
Repurchase agreements (Cost--$415,446,000)	415,446,000
Cash	577
Dividends and interest receivable	6,932,152
Receivable for Fund shares sold	6,381,513
Receivable for securities sold	3,496,204
Total Assets	3,099,584,127
LIABILITIES:	
Options written (Note 4)	61,118,749
Payable for Fund shares purchased	2,322,576
Investment advisory fees payable	1,387,677
Distribution fees payable	619,668
Administration fees payable	516,564
Payable for securities purchased	299,790
Accrued expenses	576,495
Total Liabilities	66,841,519
Total Net Assets	$3,032,742,608
NET ASSETS:	
Par value of shares of beneficial interest	$ 158,461
Capital paid in excess of par value	2,304,653,273
Undistributed net investment income	1,192,859
Accumulated net realized gain from security transactions	7,300,708
Net unrealized appreciation of investments and options	719,437,307
Total Net Assets	$3,032,742,608
Shares Outstanding:	
Class A	31,770,378
Class B	123,077,239
Class C	2,226,473
Class Y	1,387,020
Net Asset Value:	
Class A (and redemption price)	$19.14
Class B *	$19.14
Class C **	$19.15
Class Y (and redemption price)	$19.17
Class A Maximum Public Offering Price Per Share (net asset value plus 5.26% of net assets value per share)	$20.15

</TABLE>

* Redemption price is NAV of Class B shares reduced by a 5.00% CDSC if shares are redeemed within one year from initial purchase (See Note 2).

** Redemption price is NAV of Class C shares reduced by a 1.00% CDSC if shares are redeemed within the first year of purchase. See Notes to Financial Statements.

See Notes to Financial Statements.

Statement of Operations	For the Period Ended December 31, 1996(a)

<TABLE>

<S> <C>

INVESTMENT INCOME:	
Dividends	$ 27,135,208
Interest	10,237,354
Less: Foreign withholding tax	(320,736)
Total Investment Income	37,051,826
EXPENSES:	
Distribution fees (Note 2)	7,545,851
Investment advisory fees (Note 2)	6,454,801
Administration fees (Note 2)	2,347,201
Shareholder and system servicing fees	993,127
Shareholder communications	237,080
Registration fees	139,968
Custody	39,713
Audit and legal	32,901
Insurance	16,721
Trustees' fees	9,000
Other	70,349
Total Expenses	17,886,712
Net Investment Income	19,165,114
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND OPTIONS (NOTES 3 AND 4):	
Realized Gain (Loss) From:	
Security transactions (excluding short-term securities)	73,367,991
Options written	(46,932,947)
Net Realized Gain	26,435,044
Change in Net Unrealized Appreciation of Investments and Options:	
Beginning of period	406,164,137
End of period	719,437,307
Increase in Net Unrealized Appreciation	313,273,170
Net Gain on Investments and Options	339,708,214
Increase in Net Assets From Operations	$ 358,873,328

</TABLE>

(a) For the period from August 1, 1996 to December 31, 1996.

See Notes to Financial Statements.

Statements of Changes in Net Assets

For the Period Ended December 31, 1996 and
the Year Ended July 31, 1996

<TABLE>
<CAPTION>

<S>	<C> December 31(a)	<C> July 31
OPERATIONS:		
Net investment income	$ 19,165,114	$ 42,604,346
Net realized gain	26,435,044	185,268,214
Increase in net unrealized appreciation	313,273,170	88,232,117
Increase in Net Assets From Operations	358,873,328	316,104,677
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(18,736,290)	(42,253,658)
Net realized gains	(73,502,296)	(129,273,168)
Decrease in Net Assets From Distributions to Shareholders	(92,238,586)	(171,526,826)
FUND SHARE TRANSACTIONS (NOTE 6):		
Net proceeds from sale of shares	245,247,901	535,462,312
Net asset value of shares issued for reinvestment of dividends	68,372,367	126,644,485
Cost of shares reacquired	(146,875,918)	(346,996,312)
Increase in Net Assets From Fund Share Transactions	166,744,350	315,110,485

Increase in Net Assets	433,379,092	459,688,336
NET ASSETS:		
Beginning of period	2,599,363,516	2,139,675,180
End of period*	$ 3,032,742,608	$ 2,599,363,516
* Includes undistributed net investment income of:	$ 1,192,859	$ 252,227

</TABLE>

(a) For the period from August 1, 1996 to December 31, 1996.

See Notes to Financial Statements.

Notes to Financial Statements

1. Significant Accounting Policies

The Smith Barney Premium Total Return Fund ("Fund"), a separate investment fund of the Smith Barney Income Funds ("Trust"), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. The Trust consists of the Fund and six other separate investment funds: Smith Barney Exchange Reserve Fund, Smith Barney Convertible Fund, Smith Barney High Income Fund, Smith Barney Tax-Exempt Income Fund, Smith Barney Diversified Strategic Income Fund and Smith Barney Utilities Fund. The financial statements and financial highlights for the other Funds are presented in separate annual reports dated July 31, 1996.

The significant accounting policies consistently followed by the Fund are: (a) security transactions are accounted for on trade date; (b) investments are valued at market value or, in the absence of market value with respect to any portfolio securities, at fair value as determined by or under the direction of the Board of Trustees. Portfolio securities that are traded primarily on a domestic or foreign exchange are valued at the last sale price on that exchange or, if there were no sales during the day, at the current quoted bid price. Over-the-counter securities are valued on the basis of the bid price at the close of business each day. Options are generally valued at the last sale price or, in the absence of the last price, the last offer price. Investments in U.S. Government securities (other than short-term securities) are valued at the mean of the quoted bid and ask price; (c) securities maturing within 60 days are valued at cost plus accreted discount, or minus amortized premium, which approximates market value; (d) interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis; (e) dividend income is recorded on the ex-dividend date; foreign dividends are recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence; (f) dividends and distributions to shareholders are recorded on the ex-dividend date; (g) gains or losses on the sale of securities calculated by using the specific identification method; (h) the accounting records are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, and income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. Differences between income and expense amounts recorded and

collected or paid are adjusted when reported by the custodian bank; (i) direct expenses are charged to each fund and each class; management fees and general fund expenses are allocated on the basis of relative net assets of each class; (j) the character of income and gains distributed are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. At December 31, 1996, reclassifications are made to the Portfolio's capital accounts to reflect permanent book/tax differences and income and gains available for distributions under income tax regulations. Net investment income, net realized gains and net assets were not affected by this change; (k) the Fund intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies and to make distributions of taxable income sufficient to relieve it from substantially all Federal income and excise taxes; and (l) estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

In addition, the Fund may from time to time enter into options and/or futures contracts in order to hedge market risk.

The Fund changed its fiscal year-end from July 31 to December 31. This change was done to facilitate the administration of the Fund.

2. Investment Advisory Agreement, Administration Agreement and Other Transactions

Smith Barney Strategy Advisers Inc. ("SBSA"), a subsidiary of Smith Barney Mutual Funds Management Inc. ("SBMFM"), which, in turn, is a subsidiary of Smith Barney Holdings Inc. ("SBH"), acts as investment adviser to the Trust. The Fund pays SBSA an advisory fee calculated at an annual rate of 0.55% of the average daily net assets. This fee is calculated daily and paid monthly.

SBSA has entered into a sub-advisory agreement with Boston Partners Asset Management, L.P. ("Boston Partners"). Pursuant to the sub-advisory agreement, Boston Partners is responsible for the day-to-day portfolio operations and investment decisions for the Fund. SBSA pays Boston Partners a monthly fee calculated at an annual rate of 0.10% of the average daily net assets of the Fund. This fee is paid monthly.

SBMFM also acts as the Fund's administrator for which the Fund pays a fee calculated at an annual rate of 0.20% of the average daily net assets. This fee is calculated daily and paid monthly.

Smith Barney Inc. ("SB"), another subsidiary of SBH, acts as distributor of Fund shares and primary broker for its portfolio agency transactions. For the period ended December 31, 1996, SB received brokerage commissions of $346,980 and sales charges of approximately $435,000 for sales of the Fund's Class A shares.

There is a contingent deferred sales charge ("CDSC") of 5.00% on Class B shares, which applies if redemption occurs within one year from initial purchase and declines thereafter by 1.00% per year until no CDSC is incurred. Class C shares have a 1.00% CDSC, which applies if redemption occurs within the first year of purchase. In addition, Class A shares also have a 1.00% CDSC, which applies if redemption occurs within the first year of purchase. This CDSC only applies to those purchases of Class A shares, which, when combined with current holdings of Class A shares, equal or exceed $500,000 in the aggregate. These purchases do not incur an initial sales charge. For the period ended December 31, 1996, CDSCs paid to SB were:

	Class A	Class B	Class C
CDSCs	$ 3,000	$1,009,000	$ 5,000

Pursuant to a Distribution Plan, the Fund pays a service fee with respect to Class A, B and C shares calculated at the annual rate of 0.25% of the average daily net assets of each respective class. The Fund also pays a distribution fee with respect to Class B and C shares calculated at the annual rate of 0.50% and 0.45% of the average daily net assets of each class, respectively. For the period ended December 31, 1996, total Distribution Plan fees incurred were:

	Class A	Class B	Class C
Distribution Plan Fees	$ 592,473	$6,846,405	$ 106,973

All officers and one Trustee of the Trust are employees of SB.

3. Investments

During the period ended December 31, 1996, the aggregate cost of purchases and proceeds from sales of investments (including maturities, but excluding short-term securities) were as follows:

Purchases	$372,498,047
Sales	335,205,557

At December 31, 1996, the aggregate gross unrealized appreciation and depreciation of investments were as follows:

Gross unrealized appreciation	$ 746,357,193*
Gross unrealized depreciation	(21,365,593)*
Net unrealized appreciation	$ 724,991,600*

* Substantially the same Federal income tax purposes.

4. Option Contracts

Premiums paid when put or call options are purchased by the Fund, represent investments, which are marked-to-market daily. When a purchased option expires, the Fund will realize a loss in the amount of the premium paid. When the Fund enters into a closing sales transaction, the Fund will realize a gain or loss depending on whether the proceeds from the closing sales transaction are greater or less than the premium paid for the option. When the Fund exercises a put option, it will realize a gain or loss from the sale of the underlying security and the proceeds from such sale will be decreased by the premium originally paid. When the Fund exercises a call option, the cost of the security which the Fund purchases upon exercise will be increased by the premium originally paid.

As of December 31, 1996, the Fund had no open purchased call or put options.

When a Fund writes a call or put option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily. When a written option expires, the Fund realizes a gain equal to the amount of the premium received. When the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the option was sold) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a written call option is exercised the cost of the security sold will be decreased by the premium originally received. When a written put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise. When written

index options are exercised, settlement is made in cash. The risk associated with purchasing options is limited to the premium originally paid. The Fund enters into options for hedging purposes. The risk in writing a covered call option is that the Fund gives up the opportunity to participate in any increase in the price of the underlying security beyond the exercise price. The risk in writing a put option is that the Fund is exposed to the risk of loss if the market price of the underlying security declines.

The following written call option transactions occurred during the period ended December 31, 1996:

<TABLE>
<CAPTION>

<S>	Premiums <C>	Number of Contracts <C>
Options written, outstanding at July 31, 1996	$ 45,341,727	23,025
Options written during the period ended December 31, 1996	103,068,012	23,700
Options cancelled in closing purchase transactions	(92,344,033)	(24,000)
Options expired	(501,250)	(10,025)
Options written, outstanding at December 31, 1996	$ 55,564,456	12,700

</TABLE>

The following table represents the written call option contracts open as of December 31, 1996:

<TABLE>
<CAPTION>

Number of Contracts		Expiration	Strike Price	Value
Call Option Written				
12,700	S&P 500 Index (Premiums received -- $55,564,456)	6/20/97	$730	$(61,118,749)

5. Repurchase Agreements

The Fund purchases (and its custodian takes possession of) U.S. Government securities from banks and securities dealers subject to agreements to resell the securities to the sellers at a future date (generally, the next business day) at an agreed-upon higher repurchase price. The Fund requires continual maintenance of the market value of the collateral in amounts at least equal to the repurchase price.

6. Shares of Beneficial Interest

At December 31, 1996, the Trust had an unlimited number of shares of beneficial interest authorized with a par value of $0.001 per share. The Fund has the ability to issue multiple classes of shares. Each share of a class represents an identical interest and has the same rights, except that each class bears certain direct expenses specifically related to the distribution of its shares.

At December 31, 1996, total paid-in capital amounted to the following for each class:

	Class A	Class B	Class C	Class Y
Total Paid-in Capital	$ 481,032,264	$1,761,641,515	$ 37,312,020	$ 24,825,935

Transactions in shares of each class were as follows:

	Period Ended December 31, 1996*		Year Ended July 31, 1996**	
	Shares	Amount	Shares	Amount
Class A				
Shares sold	1,879,826	$ 34,394,839	4,407,887	$ 74,401,892
Shares issued on reinvestment	826,867	15,241,668	1,719,698	29,658,966
Shares redeemed	(1,636,594)	(29,718,184)	(4,309,199)	(74,624,179)
Net Increase	1,070,099	$ 19,918,323	1,818,386	$ 29,436,679
Class B				
Shares sold	10,374,378	$ 189,390,976	24,708,121	$ 427,376,024
Shares issued on reinvestment	2,825,089	52,114,744	5,545,245	95,657,996
Shares redeemed	(6,245,730)	(114,229,669)	(15,497,442)	(267,822,402)
Net Increase	6,953,737	$ 127,276,051	14,755,924	$ 255,211,618
Class C				
Shares sold	548,279	$ 10,029,903	1,176,592	$ 20,291,428
Shares issued on reinvestment	54,950	1,015,955	76,551	1,327,523
Shares redeemed	(159,786)	(2,928,065)	(262,293)	(4,549,731)
Net Increase	443,443	$ 8,117,793	990,850	$ 17,069,220
Class Y				
Shares sold	629,645	$ 11,432,183	757,375	$ 13,392,968
Shares issued on reinvestment	--	--	--	--

Shares redeemed	--	--	--	--
Net Increase	629,645	$ 11,432,183	757,375	$ 13,392,968

</TABLE>

* For the period from August 1, 1996 to December 31, 1996.

** Transactions for Class Y Shares are for the period from February 7, 1996 (inception date) to December 31, 1996.

Financial Highlights

For a share of each class of beneficial interest outstanding throughout each period:

<TABLE>
<CAPTION>

Class A Shares	1996(1)(2)	1996	1995	1994	1993(3)
<S>	<C>	<C>	<C>	<C>	<C>
Net Asset Value, Beginning of Period	$ 17.40	$ 16.33	$ 15.69	$ 15.65	$ 15.15
Income From Operations:					
Net investment income	0.16	0.37	0.44	0.33	0.19
Net realized and unrealized gain	2.21	1.98	1.48	0.99	1.33
Total Income From Operations	2.37	2.35	1.92	1.32	1.52
Less Distributions From:					
Net investment income	(0.16)	(0.37)	(0.43)	(0.31)	(0.17)
Overdistribution of net investment income	--	--	--	(0.24)	(0.03)
Net realized gains	(0.47)	(0.91)	(0.14)	(0.52)	(0.44)
Overdistribution of net realized gains	--	--	--	--	(0.05)
Capital	--	--	(0.71)	(0.21)	(0.33)
Total Distributions	(0.63)	(1.28)	(1.28)	(1.28)	(1.02)
Net Asset Value, End of Period	$ 19.14	$ 17.40	$ 16.33	$ 15.69	$ 15.65
Total Return	13.80%+++	14.76%	12.92%	8.65%	10.31%+++
Net Assets, End of Period (000s)	$ 608,203	$ 534,329	$ 471,578	$ 67,699	$ 39,677
Ratios to Average Net Assets:					
Expenses	1.12%+	1.12%	1.16%	1.19%	1.20%+
Net investment income	2.05+	2.16	2.81	2.05	1.64+
Portfolio Turnover Rate	30%	58%	63%	34%	55%
Average commissions per share paid on equity transactions(4)	$ 0.06	$ 0.06	--	--	--

</TABLE>

(1) Per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this year since the use of the undistributed income method did not accord with results of operations.

(2) For the period from August 1, 1996 to December 31, 1996.

(3) For the period from November 6, 1992 (inception date) to July 31, 1993.

(4) As of September 1995, the SEC instituted new guidelines requiring the disclosure of average commissions per share.

+++ Total return is not annualized, as it may not be representative of the total return for the year.

\+ Annualized.

Financial Highlights (continued)

For a share of each class of beneficial interest outstanding throughout each period:

<TABLE>
<CAPTION>

Class B Shares	1996(1)(2)	1996	1995	1994	1993	1992

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net Asset Value, Beginning of Period	$ 17.40	$ 16.33	$ 15.69	$ 15.65	$ 15.21	$ 14.26
Income From Operations:						
Net investment income	0.12	0.28	0.36	0.25	0.23	0.22
Net realized and unrealized gain	2.21	1.99	1.48	1.00	1.47	1.93
Total Income From Operations	2.33	2.27	1.84	1.25	1.70	2.15
Less Distributions From:						
Net investment income	(0.12)	(0.29)	(0.34)	(0.27)	(0.16)	(0.22)
Overdistribution of net investment income	--	--	--	(0.22)	(0.03)	--
Net realized gains	(0.47)	(0.91)	(0.14)	(0.52)	(0.57)	--
Overdistribution of net realized gains	--	--	--	--	(0.06)	--
Capital	--	--	(0.72)	(0.20)	(0.44)	(0.98)
Total Distributions	(0.59)	(1.20)	(1.20)	(1.21)	(1.26)	(1.20)
Net Asset Value, End of Period	$ 19.14	$ 17.40	$ 16.33	$ 15.69	$ 15.65	$ 15.21
Total Return	13.57%+++	14.21%	12.36%	8.12%	11.68%	15.68%
Net Assets, End of Period (millions)	$ 2,355	$ 2,021	$ 1,655	$ 1,697	$ 1,231	$ 585
Ratios to Average Net Assets:						
Expenses	1.54%+	1.62%	1.66%	1.66%	1.69%	1.69%
Net investment income	1.63+	1.66	2.31	1.58	1.16	1.53
Portfolio Turnover Rate	30%	58%	63%	34%	55%	57%
Average commissions per share paid on equity transactions(3)	$ 0.06	$ 0.06	--	--	--	--

</TABLE>

(1) Per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this year since the use of the undistributed income method did not accord with results of operations.
(2) For the period from August 1, 1996 to December 31, 1996.
(3) As of September 1995, the SEC instituted new guidelines requiring the disclosure of average commissions per share.
+++ Total return is not annualized, as it may not be representative of the total return for the year.
\+ Annualized.

Financial Highlights (continued)

For a share of each class of beneficial interest outstanding throughout each period:

<TABLE>
<CAPTION>

Class C Shares	1996(1)(2)	1996	1995	1994(3)	1993(4)
<S>	<C>	<C>	<C>	<C>	<C>
Net Asset Value, Beginning of Period	$ 17.41	$ 16.33	$ 15.69	$ 15.65	$ 15.45
Income From Operations From:					
Net investment income	0.12	0.29	0.36	0.23	0.05
Net realized and unrealized gain	2.21	1.99	1.48	1.02	0.35
Total Income From Operations	2.33	2.28	1.84	1.25	0.40
Less Distributions From:					
Net investment income	(0.12)	(0.29)	(0.35)	(0.27)	(0.03)
Overdistribution of net investment income	--	--	--	(0.22)	(0.01)
Net realized gains	(0.47)	(0.91)	(0.14)	(0.52)	(0.08)
Overdistribution of net realized gains	--	--	--	--	(0.01)
Capital	--	--	(0.71)	(0.20)	(0.07)
Total Distributions	(0.59)	(1.20)	(1.20)	(1.21)	(0.20)

Net Asset Value, End of Period	$ 19.15	$ 17.41	$ 16.33	$ 15.69	$ 15.65
Total Return	13.58%+++	14.30%	12.36%	8.12%	2.60%+++
Net Assets, End of Period (000s)	$ 42,637	$ 31,044	$ 12,937	$ 1,878	$ 357
Ratios to Average Net Assets:					
Expenses	1.55%+	1.59%	1.62%	1.60%	1.31%+
Net investment income	1.61+	1.68	2.35	1.65	1.54+
Portfolio Turnover Rate	30%	58%	63%	34%	55%
Average commissions per share paid on equity transactions(5)	$ 0.06	$ 0.06	--	--	--

</TABLE>

(1) Per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this year since the use of the undistributed income method did not accord with results of operations.
(2) For the period from August 1, 1996 to December 31, 1996.
(3) On November 7, 1994 the former Class D shares were renamed Class C shares.
(4) For the period from June 1, 1993 (inception date) to July 31, 1993.
(5) As of September 1995, the SEC instituted new guidelines requiring the disclosure of average commissions per share.
+++ Total return is not annualized, as it may not be representative of the total return for the year.
\+ Annualized.

Financial Highlights (continued)

For a share of each class of beneficial interest outstanding throughout each period:

<TABLE>
<CAPTION>

Class Y Shares	1996(1)(2)	1996(3)
<S>	<C>	<C>
Net Asset Value, Beginning of Period	$ 17.42	$ 17.57
Income From Operations:		
Net investment income	0.17	0.19
Net realized and unrealized gain	2.23	0.33
Total Income From Operations	2.40	0.52
Less Distributions From:		
Net investment income	(0.18)	(0.21)
Net realized gains	(0.47)	(0.46)
Total Distributions	(0.65)	(0.67)
Net Asset Value, End of Period	$ 19.17	$ 17.42
Total Return+++	13.95%	2.93%
Net Assets, End of Period (000s)	$ 26,585	$ 13,192
Ratios to Average Net Assets+:		
Expenses	0.80%	0.87%
Net investment income	2.36	2.24
Portfolio Turnover Rate	30%	58%
Average commissions per share paid on equity transactions(4)	$ 0.06	$ 0.06

</TABLE>

(1) Per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this year since the use of the undistributed income method did not accord with results of operations.
(2) For the period from August 1, 1996 to December 31, 1996.
(3) For the period from February 7, 1996 (inception date) to July 31, 1996.
(4) As of September 1995, the SEC instituted new guidelines requiring the disclosure of average commissions per share.
+++ Total return is not annualized, as it may not be representative of the total return for the year.
\+ Annualized.

Independent Auditors' Report

The Shareholders and Board of Trustees of
Smith Barney Income Funds:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Smith Barney Premium Total Return Fund of Smith Barney Income Funds as of December 31, 1996, the related statement of operations for the period from August 1, 1996 to December 31, 1996, the statement of changes in net assets for the period from August 1, 1996 to December 31, 1996 and the year ended July 31, 1996 and financial highlights for the period from August 1, 1996 to December 31, 1996 and for each of the years in the two-year period ended July 31, 1996. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the years in the three-year period ended July 31, 1994, were audited by other auditors whose report thereon, dated September 19, 1994, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1996, by correspondence with the custodian. As to securities purchased or sold but not received or delivered, we performed other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Smith Barney Premium Total Return Fund of Smith Barney Income Funds as of December 31, 1996, the results of its operations for the period from August 1, 1996 to December 31, 1996, the changes in its net assets for the period from August 1, 1996 to December 31, 1996 and the year ended July 31, 1996 and financial highlights for the period from August 1, 1996 to December 31, 1996 and each of the years in the two-year period ended July 31, 1996, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

New York, New York
February 7, 1997

Tax Information (unaudited)

The amount of long-term capital gains paid by the Fund to its shareholders for the fiscal year ended December 31, 1996, was $65,957,970.

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SMITH BARNEY
PREMIUM TOTAL
RETURN FUND

OFFICERS

Heath B. McLendon
Chairman and Investment Officer

Jessica M. Bibliowicz
President

Lewis E. Daidone
Senior Vice President
and Treasurer

Harry J. Rosenbluth
Investment Officer

Thomas M. Reynolds
Controller

Christina T. Sydor
Secretary

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INVESTMENT ADVISER

Smith Barney Strategy Advisers Inc.

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Smith Barney Inc.

CUSTODIAN

PNC Bank, N.A.

SHAREHOLDER
SERVICING AGENT

First Data Investors Services Group, Inc.
P.O. Box 9134
Boston, MA 02205-9134

This report is submitted for the general information of the shareholders of Smith Barney Premium Total Return Fund. It is not authorized for distribution to prospective investors unless accompanied or preceded by an effective Prospectus for the Fund, which contains information concerning the Fund's investment policies and expenses as well as other pertinent information.

SMITH BARNEY
PREMIUM TOTAL
RETURN FUND

388 Greenwich Street
New York, New York 10013

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