

LAWYER FOR *Life*

KEEPING YOUR FAMILY HEALTHY, WEALTHY & WISE

THE NEW TAX BILL—HOW WILL IT IMPACT YOU IN 2011?



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After much confusion, speculation and procrastination, the long and weary road to estate tax clarity is finally at an end. The tax bill recently passed by Congress keeps many of the tax breaks of 2010 in place, in what many news outlets are calling “a win-win situation” for most individual taxpayers.

Here is a brief overview of what you can expect in 2011:

New Estate Tax Exemptions and Rates

The new bill sets the estate tax exemption at \$5 million per individual (\$10 million per married couple), with amounts over the exemption taxed at a 35% rate. This is opposed to the \$3.5 million exemption and 45% rate some lawmakers were hoping for.

Tax Election for 2010 Estates

This is one of the biggest parts of the new bill. Tax election gives 2010 estates the choice of whether to use 2010 or 2011 tax rules. This is good news because the tax on heirs who sell assets of those who died in 2010 is based on the original acquisition cost of the assets, not on their value as of the date of the taxpayer’s death, as is usually the case; which means that the taxes paid are generally higher on estates of decedents who died in 2010 than in 2009 or 2011.

Unification of the Estate, Gift, and Generation-Skipping Taxes

In recent years the exemptions for the three levies have been out of sync with each other, making succession planning difficult for family

businesses and other matters. The unification of all three makes giving gifts to grandchildren much easier than it used to be.

Individual Income and Payroll Taxes

The new bill wasn’t just about estate taxes; it also extends the Bush-era income tax rates; this is good news as it prevents a rise for nearly all taxpayers.

Effective Date and Duration

The effective date of the new provisions is January 1, 2011 and is effective through 2012, at which point the provisions will “sunset.” What this means is that the new tax package may be only a temporary reprieve—we could be going through all of this again in 2012-2013.

With the threat of high estate taxes out of the way does any reason remain to create (or update) your estate plan? Absolutely!

Estate planning is about more than just planning for taxes, it’s about taking control of your assets and choosing how your estate will be distributed. Divorce, second marriages, planning for college, charitable gifts—these are just a few of the reasons why estate planning is essential regardless of the state of the estate tax.

At the very least, the recent fluctuation of the law means that you’ll want to call our office and make an appointment to have your existing plan reviewed and updated to ensure you don’t have any outdated clauses that could negatively affect your heirs.



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DISCLAIMING AN INHERITANCE: MAKE IT EASY FOR YOUR HEIRS TO SAY “NO”



People have been known to do crazy things when taxes are as unpredictable as they have been this past year. No, we don't mean “offing” their relatives (although there have been plenty of those kinds of jokes going around this year), we're talking about saying “No thanks” to an inheritance (also called disclaiming.)

Disclaiming means that one heir can abstain from taking an inheritance, leaving the assets for other beneficiaries. Planning in advance for such a move can save huge amounts on estate taxes, leaving more money for heirs and loved ones.

Avoiding taxes is one of the main reasons a person might want to disclaim an inheritance, but it's certainly not the only one. There are plenty of other reasons why someone might want to pass on a large inheritance, including:

- To pass the benefit of the inheritance on to another family member (generally a younger family member who could use the money for college, a first house, etc.)
- To pass the benefit on to another family member who may be in a lower income tax bracket.
- To avoid passing the inheritance directly on to creditors if the initial beneficiary is in debt or involved in a lawsuit.
- To avoid becoming the owner of unwanted assets (such as failing property.)

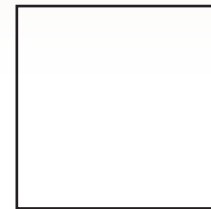


The best reason to account for the possibility of disclaiming in your will or estate plan is that it provides your heirs with flexibility. The new estate tax law has been passed, but uncertainties still remain, the new law sunsets at the end of 2012, creating an opening for new exemptions, tax levels and other rules. Aside from this, you simply don't know when you'll die, and you can't know for sure how much you'll be worth.

You never know what the future may hold—for you or your heirs. When in doubt, it pays to make provisions for any eventuality.



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HAPPY NEW YEAR!

Dear Clients and Other Friends:

As you have probably heard by now, on December 17, 2010, President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "Act"). The sunseting on December 31 of what have come to be known as the "Bush Era" tax cuts, at the same time that many Americans' federal unemployment benefits were about to run out, prompted the President to broker a deal with Republican leaders and push it through the lame-duck Congress just days before recess.

Undoubtedly everyone has an opinion about the wisdom and necessity of this bill, but now that it is law, my job is to understand and work with it to our clients' benefit.

As you will read in our first article, the Act presents us with some possible planning opportunities as a result of increases to the gift tax and GST exemption amounts. We also have at least one brand-new concept to work with, which is the portability of the estate tax exemption. At this point that will only apply when a spouse dies in 2011 or 2012. All of the changes enacted are only temporary, though, so give us a call soon if you'd like to discuss any of these planning opportunities with me.

Please recycle or, better yet, pass this newsletter on to a friend after you've read it. I hope this new year brings happiness to you and your family.

Warmly,

Kirsten Howe
Attorney at Law