Price & Farrington's Estate and Tax Planning *Fast*Facts

December, 2006

Estate, Tax , Business and Wealth Planning for Advisors and Clients

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Estate Planning Ruminations and Reminders: *A Year-End Miscellany*

December—and year's end — is typically a time of reflection and anticipation. Another page of the calendar turns and another calendar year becomes history. Time is passing. Our well-(or not-so-well) laid plans are reaching fruition or breeding frustration, or maybe a little of both. We see where we've come over the past twelve months and we try to identify the adjustments we think we need to make over the next twelve. Most of us never get it perfect, either in the accuracy of our reflections or the clarity of our expectations. Life has a way of playing with us, and it is our reaction to, and planning for, its vicissitudes that has as much as anything to do with our living it successfully.

Planning. Noun: *A method to achieve an end. The establishment of goals, policies and procedures. Formulating a program of action. An orderly arrangement of parts.* Whether it's planning for taxes, investments, insurance, retirement or our estate, the name of the game by year end is to make sure we've taken advantage of 2006 law and to position ourselves for 2007. The way we –and our clients– best accomplish this *planning* is with the guidance and advice of our professional advisors. The advisory team is the secret to our clients' success. It is, by the way, also the vital key to our best serving our clients' interests. Mutual respect for, and meaningful communication with, the client's team members is the very best way for advisors to serve our clients while nurturing our professional contacts. It's a good and effective result all around.

Keeping Your Planning Current.

Out with the old year and in with the new often triggers a client's realization that important planning updates can't be ignored any longer. My clients often ask me: "How often do I need to update my estate plan?" to which I respond candidly, "Well, I don't know. It depends." The short answer? When the plan no longer reflects current circumstances or goals, it needs to be adjusted. It may be minor, routine maintenance or it might be major engine or body work.

Here's a partial list of items that might require a reevaluation of some aspect of your estate plan:

- ☑ Important new laws.
- ☑ Death, disability, serious change in circumstances of — or a desire to readdress a decision regarding— a family member, beneficiary or important designee in the plan (e.g., trustee, guardian, agent or personal representative).
- ☑ Marriage, birth or adoption.
- ☑ Marital dissolution.

- ☑ Health problem, serious illness.
- ☑ Significant increase or decrease in income, nature of income or estate value.
- ☑ Change in asset ownership or business interests.
- ☑ Retirement or change in employment.
- ☑ Change of state of residence.
- ☑ Life insurance purchase or change in insurability.
- ☑ Receipt of inheritance or gift.
- ☑ Purchase of real property out of state.

This is just a partial list, but you get the idea. *The Key:* Periodic reevaluation and/or regular maintenance of your estate plan should be based upon your changing circumstances, goals and concerns.

Splitting Assets Without Splitting Up the Marriage

Does it matter which spouse dies first? Maybe. I met with a client recently; let's call her Sally. Sally is a 45 year old former long-term Micro-

A Reminder to CPAs!

You received the mailer several weeks ago. If you misplaced it or have simply forgotten, here's a reminder—
Price & Farrington offers a 3 CPE credit workshop for CPAs:

Understanding and Solving Tax Issues of IRAs and Qualified Plans: *Opportunities and Pitfalls of Retirement Plan Distributions for CPAs*

Tuesday, December 12, 2006
8:30-11:30 a.m.
12501 Bel-Red Road, Bellevue
For complete details, visit www.pricefarrington.com and click on the "Seminars" page under "About Us".

soft employee who "retired" in 2000. Sally has a net worth of about $1.3 million. In 2000 Sally married another former Microsoft employee (we'll call him Harry) who currently has a net worth of about $3.7 million. That's a $5 million marital estate. Harry has a teenaged daughter from a prior marriage. Before the two married, they signed a prenuptial agreement identifying separate property.

In the case of blended families or where one spouse is in a profession which is a target of liability lawsuits, or for any number of other legitimate reasons, maintaining separate property can be an effective estate and asset protection planning goal. The downside to unequal separate property in a marriage is the potential adverse impact it has on *estate tax planning.* If Harry dies first, his credit shelter trust can be funded with $2 million dollars from his own assets. But if Sally dies first, only the $1.3 million in her name would be available to fund the trust, resulting in a waste of a substantial portion of her $2 million federal and state exclusions.

Ensuring that each spouse has enough assets requires a review of how they are currently titled and then shifting ownership of appropriate assets. "Equalizing" the marital estate can be a very simple and effective strategy for estate tax planning.

Holiday Humor Matters

Signs of Christmas:

Toy store: "Ho!Ho!Ho! Spoken here
Bridal boutique: "Marry Christmas!"
Department store: "Big Pre-Christmas Sale: Come in and mangle with the crowd."
Texas jewelry store: "Diamond tiaras-$70,000. Three for $200,000.
Stationery store: "For the man who has everything: a calendar to remind him when payments are due."

Riddles:

What is the best evidence that Microsoft has a monopoly?
Santa had to switch from chimneys to Windows.
Where can you find literature about Santa's assistants?
The library's Elf-help section.
What do you call people who are afraid of Santa Claus?
Claus-trophobic.
If Santa and Mrs. Claus had a child, what would he be called?
A subordinate Claus. P&F

Holiday Season Giving

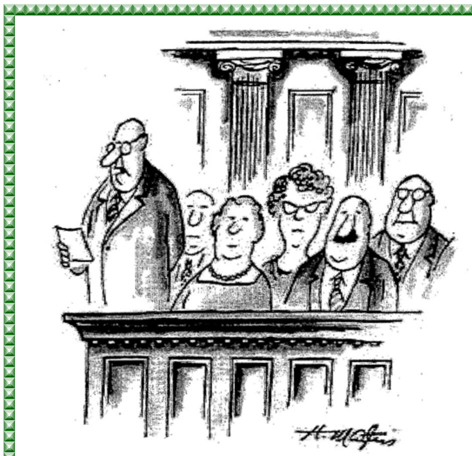
'Tis the season to be giving, and end-of-the-year gift-giving can accomplish significant estate and tax-planning goals. One important result is that the gifted asset and any appreciation in the value of that asset will be removed from your taxable estate. Here are a few reminders:

☑ Don't forget your $12,000 *annual gift tax exclusion amount.* And your spouse's. That's a total of $24,000 that can potentially be gifted by a married couple this year to *each* of an unlimited number of donees (e.g., children, grandchildren or non-relatives, including your favorite estate planning attorney) without using up any of your $1 million lifetime gift tax exclusion amount.

☑ Unlimited gifts can be made annually between spouses, unless the donee is a non-U.S. citizen spouse, in which case IRC 2523(i) allows a total tax-free gift of $120,000 in 2006. (*See* our February, 2006 *Fast*-Facts at www.pricefarrington.com.)

☑ IRC §170(b)(1)(a) permits taxpayers who are 70 1/2 or older to make an income tax-free distribution from an IRA directly to charities. The annual distribution limit is $100,000 and current law restricts these gifts to the period August 17, 2006 through December 31, 2007. (*See* our September, 2006 *Fast*Facts)

☑ If you've owned appreciated stock for more than one year, you can deduct the full fair market value of a direct charitable donation of the stock without paying any capital gains tax on it's appreciation. And a gift of such stock to your eighteen year old child is likely to be taxed at only 5% upon sale, leaving more money available for college tuition.



"In a concerted effort to get home for the holidays, we find the defendant guilty as charged."

☑ Gifts a donor makes *directly to* an educational institution for tuition or *directly to* a medical provider do not count toward the $12,000 annual exclusion amount or the $1 million lifetime exclusion.

☑ Gifting to a §529 education plan allows special, larger, accelerated contributions to the plan under the protection of the annual gift tax exclusion rules.

☑ And more...

We wish you happy giving and good planning! **GDP**

Happy Holidays from all of us at Price & Farrington!

Our best wishes to you and your family for a safe and joyous Holiday season!

We hope your New Year is filled with love, health and happiness!