

Price & Farrington's Estate and Tax Planning Fast Faxes

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Estate, Tax and Family Wealth Preservation Planning For Advisors

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The New Tax Law In a Nutshell

Economic Growth and Tax Relief Reconciliation Act of 2001

On June 7, 2001, calling it "a great day for Americans", President Bush signed into law a 10 year, \$1.35 trillion tax-cut package. Most Democrats opposed the bill, contending that its provisions are skewed toward wealthy taxpayers and that its size will threaten future Social Security and Medicare surpluses.

The bill contains several measures that phase in slowly or phase out after a few years. Critics contend these measures, as well as a provision that would see the entire legislation expire in 2011, are simply gimmicks that disguise the package's true cost.

In a nutshell, the new law:

Estate Tax: Repeals the estate tax in 2010. Prior to repeal, reduces the top rate from 55% to 45% and increases the unified credit exemption amount from \$675,000 to \$3.5 million on this schedule:

2002	\$1	M	50%	highest rate
2003	\$1	M	49%	" "
2004	\$1.5	M	48%	" "
2005	\$1.5	M	47%	" "
2006	\$2	M	46%	" "
2007	\$2	M	45%	" "
2008	\$2	M	45%	" "
2009	\$3.5	M	45%	" "
2010	r e p e a l e d			
2011	\$1	M	55%	" "

Gift Tax: Lifetime gift exemption is \$1 million. The highest rate gradually de-

creases to 35% in 2010 and is not repealed.

Individual Income Tax Rates: Provides a new 10% rate for first \$6,000 of taxable income for singles, \$10,000 for single parents and \$12,000 for married couples in 2001 through a lump-sum refund of up to \$300 for single taxpayers, up to \$500 for single parents, and up to \$600 for married taxpayers.

- Lowers the top income tax rate from 39.6% to 35% and lowers other tax rates to create a new six bracket rate structure of: 10%, 15%, 25%, 28%, 33% and 35%.

- Repeals the personal exemption phase-out (PEP) and limit on itemized deductions over a 5 year period, but does not start until 2006.

Marriage Penalty Relief: Increases the standard deduction for married couples to twice the standard deduction for singles, phased in over 5 years beginning in 2005.

- Increases the size of the 15% bracket for married couples to twice the size of the 15% bracket for singles. The increase is phased in over 4 years but does not start until 2005.

Child Credit Expansion: Doubles the child credit from \$500 to \$1,000. This increase is phased in over 10 years.

- Makes child credit available to more low-income families by allowing more families to claim the credit – even if they have no income tax liability.

Pension Reform: Increases Individual Retirement Account (IRA) contributions from \$2,000 to \$5,000.

- Increases 401(k) and other tax-deferred contribution limits from \$10,500 to \$15,000.

- Provides "catch-up" contributions for people age 50 and older.

- Provides numerous other pension plan benefits.

Alternative Minimum Tax: Increases the exemption amount by \$2,000 for single individuals and \$4,000 for couples for years 2001 – 2004 only.

Education Incentives: Increases the annual contribution limits to



"I feel so good today I could almost turn down a tax cut"

education savings accounts from \$500 to \$2,000. It also allows tax-free withdrawals for qualified K-12 public and private education expenses.

- Provides a temporary above-the-line deduction for qualified higher education expenses.

- Allows tax-free distributions from Qualified Tuition Plans and permits private institutions to offer such plans.

- Extends exclusion for employer-provided educational assistance and extends the exclusion to graduate level courses.

The Infamous "Sunset" Provision:

Here's the actual wording: "In GENERAL. –All provisions of, and amendments made by, this Act shall not apply- (1) to taxable, plan, or limitation years beginning after Dec. 31, 2010, or (2) in the case of title V, to estates of decedents dying, gifts made, or generation skipping transfers, after Dec. 31, 2010.

Application of Certain Laws: -The Internal Revenue Code of 1986 and the Employee Retirement Income Security Act of 1974 shall be applied and administered to years, estates, gifts, and transfers described in subsection (a) as if the provisions and amendments described in subsection (a) *had never been enacted.*" (Emphasis added)

Everything is undone in 2011! Got it? ■

Estate Tax "Repeal": Hope? Or Hoax?

**"Advanced Estate Planning
For Estates of \$2 Million and Above"**
Mon., June. 18, 7:00 p.m.-9:00 p.m.

"Protect Your Estate!

The Nuts & Bolts of Estate Planning"
Tues., June. 19, 7:00 p.m.-9:15 p.m.

"IRA Planning:

Tools, Tips and Traps"
Wed., June. 27, 7:00 p.m.-9:00 p.m.

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