

ESTATE PLANNING NEWS



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The Rising Estate Tax Exemption Amount: Cause for Celebration or Concern?

If you plan to avoid or reduce estate taxes, entrance into 2006 may have been a cause for celebration. For the next 3 years, dying will be a less taxing event, as the estate tax exemption amount has risen to \$2 million.

For others, who just determined that \$2 million is so much money that they can pass over this article, keep in mind that the taxable estate includes not only the assets you own today but also any death benefits from personal life insurance policies that you control. When life insurance is thrown into the mix, some estates will exceed the seemingly generous \$2 million exemption, and tax planning should not be overlooked. *(cont. on page 3)*

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Estate Planning News

Announcements

Happy New Year!

It took almost a year, but thanks to the hard work of my brother-in-law, James Salter, and his www.SalterQuest.com team, my website is now up and running. Please visit me at: www.nicoledavidsonlaw.com.

To coordinate with the website, I am using a new email address: nicoledavidsonlaw@gmail.com.

Your feedback is always appreciated. If there is something you would like to see included on my website or in an upcoming newsletter, I look forward to hearing your ideas.



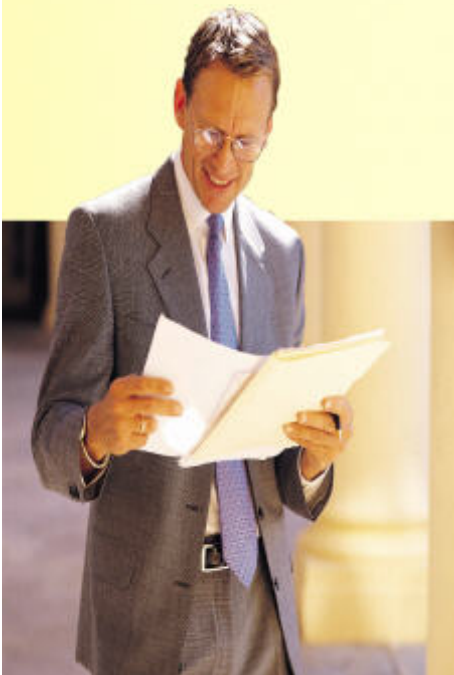
Tip of the Month

Gift Tax Annual Exclusion Increases to \$12,000; Estate Tax Exemption Amount is Now \$2 Mil.

If you give away too much property during your lifetime, you may be subject to gift tax (during your life) or estate tax (upon your death).

Beginning January 1, 2006, the annual amount that you can give to someone else without filing a gift tax return increases from \$11,000 to \$12,000. The lifetime gifting limit remains at \$1 million (or \$345,800 when described as the unified credit).

People who die this year (or in 2007 or 2008) may pass on a \$2 million estate without owing an estate tax. The Unified Credit in these years is \$780,800. Estates exceeding \$2 million in 2006 may be subject to estate tax at rates up to 46%.



Estate Planning News



Chi Wen Tze always thought three times before acting. Twice would have been enough.

-- CONFUCIUS
Analects

The Rising Estate Tax Exemption Amount

(Continued from page 1)

The rising estate tax exemption amount is also relevant to existing estate plans that were based on lower estate tax exemption amounts. This article addresses how a larger estate tax exemption amount may adversely impact existing estate plans.

Problem #1: Your Estate Plan Funnels Too Much Into the Bypass Trust

If you are married, your estate plan may include a bypass trust arrangement (also known as an A/B Trust, Credit Shelter Trust, Exemption Trust, or Family Trust). The bypass trust is a common estate planning tool used to ensure that both spouses take advantage of their respective estate tax exemptions.

In most bypass trust arrangements, when the first spouse dies, half of the couple's joint property and all of the deceased

spouse's separate property – up to the estate tax exemption amount – is placed into a bypass trust (sometimes called Trust B, the Credit Share, the Decedent's Share, or the Exemption Share). The surviving spouse retains the right to receive bypass trust income and may even be permitted to invade the trust principal for health, education, maintenance and support needs. Upon the death of the surviving spouse, any property remaining in the bypass trust is paid to the deceased spouse's beneficiaries, who are often the deceased spouse's children.

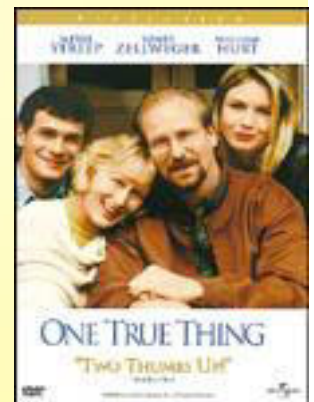
The bypass trust is a great tax reduction tool when it can be used without unduly burdening the surviving spouse. Here are some important considerations:

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Entertainment

One True Thing (1998)

In this adaptation of Anna Quindlin's 1995 novel, Ellen (Renee Zellweger) returns home to care for her cancer-stricken mother Kate (Meryl Streep). Ellen slowly rediscovers her parents, this time through an adult's eyes.



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The Rising Estate Tax Exemption Amount

(Continued from page 3)

- ♦ **When did you make an estate plan?** If you established a bypass trust arrangement before 2001 - based on an estate tax exemption amount of \$675,000 or less - you may not need a bypass trust to avoid estate taxes. If your combined estate is \$1 million or less and you wish to leave everything to your spouse, it may be wise to remove the bypass trust provisions.
- ♦ **How much does your estate plan direct to fund the bypass trust?** Some estate plans provide that the bypass trust will be funded to the full extent of the estate tax exemption amount, purportedly transferring some or even all of the surviving spouse's half of the estate into the bypass trust. While the surviving spouse can access the bypass trust to meet reasonable financial needs, he or she may end up in a legal hassle with the kids. This can create a sticky situation and may not be what you intended.

Problem #2: Your Estate Plan Doesn't Funnel Enough Into the Bypass Trust

On the flip side, your estate plan may direct that too little money pass to the bypass trust. This could occur, for

example, when a specific dollar amount - based on a prior year's estate tax exemption amount - will be used to fund the bypass trust. If the deceased spouse wastes part of his or her exemption, and the surviving spouse winds up with too much property, the surviving spouse's estate may later be subject to estate tax.

Problem #3: Your Estate Plan Leaves Too Much to Charity

If you are a single person whose estate exceeds \$2 million, you either need to do some estate tax planning or accept that Uncle Sam may be a beneficiary. Many people prefer to benefit charities instead of the government. However, if charitable gifts are calculated in reference to an old estate tax exemption amount, it may be preferable to revise the charitable gifts and leave a larger estate-tax free inheritance to family and friends.

Conclusion

As the estate tax exemption amount rises, you should revisit your estate plan to ensure that it accurately reflects your wishes. While estate tax reduction is a serious concern, most people also have non-tax goals that deserve consideration. You may have more options available with a lower estate-tax price tag.

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