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CLIENT SPOTLIGHT

The FUND for Lake George

The FUND for Lake George is an environmental not-for-profit organization dedicated to the protection of Lake George in northern New York. The FUND pursues its mission by managing one of the longest standing scientific water quality monitoring programs in the United States, in partnership with the Rensselaer Polytechnic Institute.



The program manages the Lake George Waterkeeper initiative to provide independent public oversight of local and state regulatory affairs programs, control of invasive species, public education and advocacy, and legal action when necessary. The FUND was formed in 1977 and is privately funded from its long-term investment portfolio, foundation support, and general membership.



The FUND for Lake George can be found on the web at - www.fundforlakegeorge.org.

AROUND THE FIRM

Miller/Russell participates in the Boys and Girls Clubs annual holiday shopping project



Miller/Russell employees and their families joined together this holiday season to make the lives of 12 boys and girls a little brighter. The holiday project, sponsored by the Boys & Girls Clubs of Metropolitan Phoenix, gave Miller/Russell employees the opportunity to spend time with underprivileged children and shop for clothing, shoes, school supplies, and toys. The children were so thankful to receive clothes that fit and overjoyed to be able to have a toy. The day began by having breakfast with

the children and ended with lunch and a heartfelt farewell. Spending time with the children and being able to put smiles on their faces made this holiday season all the more joyful.



FEATURE ARTICLE

Estate and Gift Tax Changes

Before the new law, there was no estate tax for 2010, but some beneficiaries could have faced higher taxes because there were less favorable income tax basis rules. Also, under the prior law, estate and other transfer taxes were scheduled to rise substantially for post-2010 transfers.

Overview of the new law. The 2010 Tax Relief Act provides temporary relief. Among other changes, it reduces estate, gift and generation-skipping transfer (GST) taxes for 2011 and 2012. It preserves estate tax repeal for 2010, but in a roundabout way: estates wanting zero estate tax for 2010 must elect that option, along with the less favorable modified carryover basis rules that were set to apply for 2010. Otherwise, by default, the estate tax is revived for 2010, with a \$5 million exemption, a top tax rate of 35%, and a step-up in basis. Also, for estates of decedents dying after Dec. 31, 2010, a deceased spouse's unused exemption may be shifted to the surviving spouse. However, these generous rules are temporary—much harsher rules are slated to return after 2012.

Lower rate and higher exemption for 2011 and 2012.

For estates of individuals dying in 2009, the top estate tax rate was 45% and there was a \$3.5 million exemption. The top rate was to rise to 55% for estates of individuals dying after 2010, and the exemption was to be \$1 million. For 2011 and 2012, the 2010 Tax Relief Act reduces the top rate to 35%. It also increases the exemption to \$5 million for 2011 with a further increase for inflation in 2012. But these changes are temporary. After 2012, the top rate will be 55%, and the exemption will be \$1 million.

Special tax saving choice for 2010. The 2010 Tax Relief Act allows estates of decedents who died in 2010 to choose between (1) estate tax (based on a \$5 million exemption and 35% top rate) and a step-up in basis, or (2) no estate tax and modified carryover basis. Basis is the yardstick for measuring income tax gain or loss when an asset is sold. With a step-up in basis, pre-death gain is eliminated because the basis in the heir's hands is increased to the date of death value of the asset. On the other hand, with a modified carryover basis, an heir gets the lesser of the decedent's original basis or the fair market value. If the decedent had a relatively low basis and significant assets, some pre-death gain may be taxed when the heir sells the property. These concerns factor into the special choice for 2010. The executor should make whichever choice would produce the lowest combined estate and income taxes for the estate and its beneficiaries. This would depend, among other factors, on the decedent's basis in the assets immediately before death and how soon the estate beneficiaries may sell the assets.



Gift tax changes. Years ago, the gift tax and the estate tax were unified—they shared a single exemption and were subject to the same rates. This was not the case in recent years. For example, in 2010, the top gift tax rate was 35% and the exemption was \$1 million. For gifts made after Dec. 31, 2010, the gift tax and estate tax are reunified and an overall \$5 million exemption applies.

GST tax changes. The GST tax is an additional tax on gifts and bequests to one who is two or more generations removed from the grantor. The 2010 Tax Relief Act lowers GST taxes for 2011 and 2012 by increasing the exemption amount from \$1 million to \$5 million (as indexed after 2011) and reducing the rate from 55% to 35%.

New portability feature. Under the 2010 Tax Relief Act, for 2011 and 2012 any exemption that remains unused after the death of a spouse is generally available for use by the surviving spouse in addition to his or her own \$5 million exemption for taxable transfers made during life or at death. Under prior law, the exemption of the first spouse to die would be lost if not used. This could happen where the spouse with resources below the exemption amount died before the richer spouse. One way to address that was to set up a trust for the poorer spouse. Now, the portability rule may make setting up a trust unnecessary in some cases. But there still may be other reasons to employ credit shelter trusts. For example, a credit shelter trust may protect appreciation occurring between the death of the first spouse and the death of the second spouse from being subject to estate tax. Such a trust can also protect against creditors and designate the desired disposition of assets. Plus, the transferred exemption may be lost if the surviving spouse remarried and is again widowed.

Conclusion. The estate tax relief in the new law is substantial, but it is temporary. Estate planning to reduce taxes remains an important consideration. Even if taxes are not a concern because an estate is below the exemption level, it is important to have a proper estate plan to ensure that the needs of intended beneficiaries are met. Please schedule an appointment with us to discuss how you and your family can make the best use of the new estate and gift tax rules.

Source: Federal Tax Updates on Checkpoint Newsstand tab 1/12/2011

TAX PLANNING FOR 2010 and 2011

IRS Delays Start Of Filing Season For Some Taxpayers

One third of all taxpayers who itemize deductions on their federal tax return will have to wait until middle to late February to file their 2010 returns. The Internal Revenue Service (IRS) attributed the late start of the filing season to changes in the tax law for 2010, but not approved until late December. The extra time is needed to reprogram their systems as a result of the changes to the tax code.

The delay applies to those claiming deductions for home mortgage interest, gifts to charity, and state and local taxes. The delay also applies to filers preparing to take advantage of a deduction for college tuition and fees of up to \$4,000, and a separate \$250 deduction for teachers' out-of-pocket classroom expenses.

Additionally, the deadline for filing tax returns, normally April 15, will be pushed back to April 18 in 2011.

The late start to the filing season will affect an estimated one-third of U.S. taxpayers who itemize their deductions rather than claim the standard deduction, which for 2010 is \$11,400 for a married couple filing jointly and \$5,700 for individuals.

Source: www.fanews.com

IRA Charitable Rollover

Good news! The IRA Charitable Rollover has been extended. The tax law passed in December restores the IRA Charitable Rollover for tax years 2010 and 2011. If you own an IRA and are over age 70½, you may transfer up to \$100,000 directly from your IRA to a qualified charity. The distribution will count towards fulfilling your RMD and can be excluded from your gross income for federal tax purposes.

Because the law was passed so close to the end of the year, donors may make qualified charitable distributions through January 31, 2011, and elect to have them treated as qualified charitable distributions in 2010.

If you need more information, talk to a Miller/Russell investment counselor or your CPA.



Should You Self-Fund Long-Term Care Insurance?

The average -

- age for initial LTC insurance benefits claim – 78
- stay in a facility – 2.8 years
- cost in Phoenix for a private room in a nursing home - \$88,695 annually
- cost of LTC facility stay per person - \$248,346
- cost of non-skilled home care - \$19/hour = \$166,440 annually for 24/7 care
- annual cost for skilled home care 24/7 - \$402,960

At less than \$250,000 the cost of self-funding an average stay in a facility for long term care may seem reasonable. If you want to stay in your home, however, and family can not manage your care, the costs can run up quickly. Perhaps your children live too far away to help, or have families and careers. What happens if the health of the caretaker partner starts to deteriorate after a prolonged period of care giving? If skilled care is needed around the clock, a \$1 million portfolio would be gone in 2.5 years. Non-skilled around the clock care is not as expensive; however, after five years the cost would reduce your assets by \$830,000. That could mean a drop in your overall income, a reduction in your standard of living, and less to pass on to your beneficiaries.

If you are considering self-funding, talk with a professional about your options. Ask Miller/Russell for a referral to a Long-Term Care Insurance specialist.

FOURTH QUARTER MARKET REVIEW

2010 was a very good year ...for investors!

The old Wall Street phrase “The stock market climbs a wall of worry” rung very true in 2010 as the year was marked by uncertainty and volatility. The specter of the “five little P.I.I.G.S.” (Portugal, Ireland, Italy, Greece, and Spain) blowing their financial house down, the “flash crash”, an embarrassing mea culpa by Goldman Sachs, an oil slick the size of Texas, or even the Federal Government spending dollars faster than a teenager with a new credit card couldn’t stop the S&P 500 index from ending the year at its 2010 peak of 1257.64, up 15.06%!

It was also a good year for small cap and emerging markets stocks, with the Russell 2000 Index gaining 16.25% in the 4th quarter and 26.85% for the year, while the MSCI EM Index was up 7.36% in the quarter and 19.20% for the year. Despite the Eurozone debt problems, the MSCI EAFE index, which measures international developed economy stocks, still managed to post solid gains of 6.65% in the 4th quarter and 8.21% for 2010.

The domestic fixed-income markets experienced a rollercoaster ride of their own in 2010, as the 10-year Treasury started the year at 3.85% before reaching an all-time low of 2.41% on October 7th due to European financial woes (see PIIGS) and the Fed’s announcement of a second round of monetary easing (QE2). However, just when the pundits were predicting a 1% 10-year Treasury yield, the Fed’s easing began to impact market rates by driving yields up .89% to 3.30% by year end. The BarCap US Aggregate Bond Index returned a healthy 6.54% for the year.

The capital markets have experienced a phenomenal recovery from their lows of March 2009 (+93.1% for the S&P 500 Index), providing solid returns for investors who maintained a disciplined investment approach. While it remains to be seen if the global economy has arrived at a “new normal” with respect to future expected returns and volatility, one thing we are certain of is the need to be carefully diversified among broad asset classes. We believe that maintaining a disciplined and diversified investment strategy when the headlines scream panic will serve you well over the long haul.

Best wishes for a prosperous 2011!



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Disclosure: Our goal is to share information with our readers that may help them better manage their personal financial situation. However, the information provided should not be construed as tax or legal advice.