

Rosen Seymour Shapss Martin & Company LLP

Certified Public Accountants & Profitability Consultants

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LIFELINES BLAST

Greetings!

Welcome to the Fiduciary Services Group's Lifelines Blast! (a publication of Rosen Seymour Shapss Martin & Company). Here is where you will receive periodic updates on all your trust and estate needs.

We welcome your questions or comments about topics discussed or related ones. Please feel free to contact us at 212-303-1012 or e-mail us at awillinger@rsmcpa.com and let us know how we can be of assistance.

Sincerely,

Alan M. Willinger, CPA, JD
Partner-in-Charge of Fiduciary Services

Recent Developments

Inflation adjustments and other tax changes for 2009.

Inflation adjustments and other tax changes for 2009 include the following:

Income tax. The 35% income tax rate will apply to taxable income of individuals (except married filing separately) over \$372,950. The personal exemption amount will be \$3,650. The 35% tax rate will apply to taxable income of an estate or trust over \$11,150.

Retirement planning. The wage base for computing Social Security tax in 2009 will rise to \$106,800. The limit on contributions to a 401(k) plan will increase to \$16,500. The maximum catch-up contribution to a 401(k) plan for individuals age 50 or over rises to \$5,500. The limitation on the annual benefit under a defined benefit plan increases to \$195,000. The limit on annual additions to a

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defined contribution account will rise to \$49,000. Except for rollover contributions, the maximum annual contribution to an IRA remains at \$5,000 for 2009, and the maximum catch-up IRA contribution for an individual age 50 or older continues to be \$1,000.

Transfer tax. In 2009, the estate tax applicable exclusion amount increases to \$3.5 million, as does the GST exemption. The gift tax applicable credit amount stays at \$1 million. The top estate tax rate is 45% in 2009. The gift tax annual exclusion rises to \$13,000. The first \$133,000 of gifts to a noncitizen spouse will be excluded from gift tax. For an estate of a decedent dying in 2009, the maximum decrease in the value of real property, for which special-use valuation is elected is \$1 million. For purposes of Section 6166, relating to installment payments of estate tax, the dollar amount used to determine the "2-percent portion" is \$1,330,000 for estates of decedents dying in 2009.

IRA distributions to charity. The Pension Protection Act of 2006 amended the IRA distribution rules to allow tax-free treatment of distributions from IRAs where the distributions are donated to charity. Specifically, a taxpayer may exclude from gross income his "qualified charitable distributions" not exceeding \$100,000 in a tax year. A "qualified charitable distribution" is any otherwise taxable distribution from a traditional IRA or a Roth IRA that is: (1) made directly by the IRA trustee to a charitable organization (other than a private foundation or a donor advised fund); and (2) made on or after the date on which the the IRA owner reached age 70-1/2. Under pre-2008 Extenders Act law, the tax-free qualified charitable distribution rules above applied only to distributions made in tax years beginning in 2006 and 2007.

Under the 2008 Extenders Act, the tax-free qualified charitable distribution rules are extended to apply to distributions made in tax years beginning after 12/31/07 and before 1/1/10. Thus, the Act extends the tax-free treatment of qualified charitable distributions for two additional tax years-2008 and 2009. Accordingly, under the Act, taxpayers age 70-1/2 or older may exclude from gross income up to \$100,000 of their qualified charitable distributions for each tax year beginning in 2008 and 2009 (in addition to any qualified charitable distributions they may have made in 2006 and 2007).

The Dynasty Trust - Leaving A Lasting Legacy

The dynasty trust has emerged in recent years as one of the most powerful estate planning tools available to individuals of high-net-worth.

The chief advantage of a dynasty trust is to preserve substantial

wealth for future generations while sheltering it from federal gift, estate and generation-skipping transfer (GST) taxes.

Many states limit the duration of a trust to anywhere from 80 to 110 years; such limits stem from a centuries-old common law doctrine known as the "rule against perpetuities." But several states, including Illinois, Alaska, South Dakota, Wisconsin, Idaho and Delaware, have enacted laws that remove virtually all limits on a trust's duration.

Your contributions to a dynasty trust are considered taxable gifts, but you can minimize or avoid gift taxes by taking advantage of your lifetime gift tax exemption (currently \$1 million) and your annual gift tax exclusion (currently \$12,000 per recipient, \$24,000 for gifts by a married couple). In addition, you've got a \$2 million estate tax exemption, or whatever is left of it, to use at your death. To transfer as much wealth as possible to your dynasty trust, allocate your remaining GST (up to \$1,000,000) tax exemption to it to ensure that your dynasty trust can benefit your grandchildren and future generations without triggering harsh GST taxes.

Once the trust is funded, the assets can grow and compound indefinitely. The trust should be designed to make distributions to your children, grandchildren and future descendants according to criteria you establish. So long as your beneficiaries don't gain control over the trust, the assets will bypass their estates. As an added bonus, you could structure the trust as a grantor trust so that you pay any taxes on the trust's income, and (at least during your lifetime) the assets are free to grow without being eroded by taxes. Allowing a trust to grow for several generations can produce enormous amounts of wealth.

If you are looking to protect your assets from future divorces and lawsuits, and want your assets to grow through many generations, a Dynasty Trust may well be for you.

FIDUCIARY SERVICES GROUP

Rosen Seymour Shapss Martin & Company LLP

RSSM's Fiduciary Services Group offers a wide range of fiduciary services. We assist and guide fiduciaries as they perform their duties and fulfill their obligations. In appropriate circumstances, we can also serve as trustee, and/or executor for you and your family. We will provide your family with protection and security by helping you plan for the future with incapacity protection, probate avoidance, planning for minor children, distribution planning and estate tax planning. Our team approach allows us to provide you with the most basic protection and our experience enables us to assist you with the most complex arrangements, including charitable giving and sophisticated estate tax strategies.

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