

# THE C & D NEWSLETTER



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## ***THE NEW TAX LAW and YOUR ESTATE*** **Is a change of strategy in your future?**

On May 25, 2001, both the House and the Senate passed the Economic Growth and Tax Relief Reconciliation Act of 2001 ("Act") which President Bush quickly signed into law. A significant part of the Act is the gradual phase-out of estate taxes with full repeal coming after 2009. Currently, an individual can make tax-free transfers, during life or at death, of assets totaling \$675,000. This sum is known as the "unified credit" and can be made in addition to yearly tax-free gifts of no more than \$10,000 per donor per donee. Under the Act, the unified credit is increased and tax rates are decreased and eventually repealed as follows:

.....	<b>Unified Credit</b>	.....	<b>Top Estate Tax Rate</b>
2001	.....\$675,000	.....	55%
2002	.....\$1,000,000	.....	50%
2003	.....\$1,000,000	.....	49%
2004	.....\$1,500,000	.....	48%
2005	.....\$1,500,000	.....	47%
2006	.....\$2,000,000	.....	46%
2007	.....\$2,000,000	.....	45%
2008	.....\$2,000,000	.....	45%
2009	.....\$3,500,000	.....	45%
2010	..... <i>Tax repealed</i>	.....	0%
2011+	.....\$1,000,000	.....	55%

It is important to note that the Act contains a "sunset" provision which means that full repeal of the estate tax may be temporary. Unless Congress enacts legislation that will extend the life of the repeal, beginning in 2011 the unified credit will be lowered and the tax rates increased once again as shown above.

### **WHAT TO DO NOW?**

While a cut in estate taxes such as this is good news, it can also complicate your current estate plan strategy. Those clients whose estate plan contains within it what is commonly called a "Bypass Trust", a "Credit Shelter Trust" or an "ABC Trust" are especially vulnerable. These types of trusts usually allow the maximum amount of the available unified credit to be "sheltered" from tax and left to designated beneficiaries (with minor restrictions) while, for example, leaving the remainder of a deceased spouse's estate to the survivor tax free. But, with the new and larger increases in unified credit amounts, the creation of a Bypass Trust may result in leaving a surviving spouse with insufficient cash to live on.

The effects of the new legislation on your estate should be evaluated carefully. Other significant changes in the tax law, including income tax on the sale of inherited property and generation-skipping transfer taxes, may also have an impact on your estate plan. With enactment of these new laws, now is the appropriate time for you to review your estate plan.

*This complimentary newsletter is intended to provide general information. Because of the complexities and constant changes in the law, it is important to seek professional advice before acting on any of the matters covered herein.*