



THE LAW FIRM OF  
BOVE & LANGA, P.C.

**ADVISORIES**

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The New Year is well on its way, and we hope it finds you prosperous and healthy. By this letter we wish to make our clients and friends aware of several important tax developments which have occurred in the past few months, as well as to remind you of a few important planning items.

**NEW DEVELOPMENTS**

Retirement Benefits: In December, the Internal Revenue Service (IRS) issued proposed regulations which govern the mandatory distribution requirements for retirement benefits, including IRAs. The proposed regulations are “pro-taxpayer” and may extend mandatory withdrawal deadline. The changes are effective for 2001, so if you have reached your “required beginning date” for distributions (the year following the year you turn 70 <sup>1/2</sup>) and have not yet made your withdrawal for this tax year you should contact your plan administrator or financial institution to assist you in calculating the new mandatory withdrawal amounts. Additionally, for those of you who do not name a spouse as your primary beneficiary following your death, the proposed regulations permit new planning opportunities for your beneficiary. If you would like us to review your current beneficiary designation, or assist you with the calculation of your required distribution, please do not hesitate to contact us.

Split Dollar Life Insurance Arrangements: In early January, the IRS issued Notice 2001-10 for the purpose of clarifying the tax treatment of split-dollar arrangements, pending publication of further guidance. This Notice impacts employer-employee split-dollar arrangements, as well as private split-dollar arrangements. If you presently are utilizing a split-dollar arrangement, and would like us to review the specifics of your situation, please let us know and we will be happy to do so.

Estate Tax Repeal: As many of you are aware, President Bush has re-introduced legislation that would repeal the estate tax. Public opinion, however, appears to be embracing reform, rather than repeal. In January, several members of the firm attended the country’s premiere estate planning conference, during which there was much discussion focused on the effort to repeal. The general consensus was that first, if repeal was enacted, it would phase in over a term of at least 10 years; second, that there was a strong possibility that a filibuster in the Senate would thwart efforts at repeal; and third, that the States would lobby strongly against repeal due to the loss of State revenue resulting from repeal. So what does that mean to you? Deferral or cancellation of estate planning in anticipation of a repeal may cause lost opportunities to plan for deaths occurring within a “phase-out” period, or if the estate tax is repealed, for deaths occurring after the tax reinstated by a subsequent Congress.

**OTHER MATTERS**

Administering Family and Marital Trusts: For married couples, when the first spouse dies that spouse’s estate planning trust typically divides into a “Family Trust”, which is funded with an amount of assets which escapes taxation in both spouses estates, and a “Marital Trust” which is funded with all remaining assets. Whatever property remains in the Marital Trust at the surviving spouse’s death is

subject to estate tax. Therefore, when taking principal distributions, it is advisable to take them from the Marital Trust --- and consume the assets --- and leave the Family Trust intact to grow estate tax free.

Savings Bonds: Series E governmental savings bonds stop earning interest after 40 years (or 30 years, depending upon the issue date). If you or a loved one has Series E bonds, they can be rolled over into Series HH bonds without a tax, the HH bonds thereafter earn interest for 20 years, paid semiannually. However, when the Series HH bonds mature or are liquidated, a tax will be due on that interest which had been accumulated within the Series E bonds.

Education Accounts: The relatively new Section 529 of the Internal Revenue Code permits favorable tax-deferred savings accounts for the benefit of your children, grandchildren, or other family members who go to college. You can even get the money back (typically with a 10% penalty) if your financial circumstances change. We could advise you on whether they fit your particular situation, and on setting up such an account.

Gift Tax Returns: Gift tax returns for taxable gifts made in 2000 are due by April 15, 2001. Remember, even if the gift you made was not taxable, a gift tax return may be required if you intend to "split" the gift with your spouse, or if the gift is not easily valued, such as interests in a family business. Additionally, certain gifts to a grandchild can require the allocation of your "generation skipping transfer ("GST") tax exemption" to the gift to avoid the GST tax. This latter situation may be the case if you are transferring funds into an irrevocable life insurance trust which will ultimately benefit your grandchildren or more remote descendants. And, if you do have an insurance trust, make sure the Trustee is sending the withdrawal notices to the beneficiaries each time you transfer funds to the trust.

Changes to Your Circumstances: To insure that your estate plan continues to meet your personal goals, you should inform us of any changes that may occur with your family and finances. We recommend a quick "check-up" by our office at least every three years as a way of keeping your plan current with the law and maximizing additional estate planning possibilities. Finally, if you signed an estate planning trust prior to January 1, 1997, significant changes in Federal and Massachusetts estate tax laws have rendered certain provisions of such a trust obsolete, and you may benefit from up-dating these trusts.