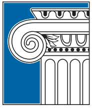
Back Bay Financial Group, Inc. ⚜Summer 2007⚜
Helping Clients Build and Manage Wealth™

The Back Bay Advisor

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Should You Start a Gifting Strategy?

Lifetime gifts have long been used to reduce taxable estates, thus reducing estate taxes. But with the eventual repeal of the estate tax in 2010, are lifetime gifts still a viable estate planning strategy? If the estate tax was repealed permanently, it might not be. Since it is scheduled to be phased out gradually and then reinstated in 2011, you may still want to make gifts during your lifetime to reduce your taxable estate. Some tips to consider include:

- **Use your annual gift tax exclusion amount.** Every year, you can gift a specified amount ($12,000 in 2007, $24,000 if the gift is split with your spouse) to any number of individuals free of gift taxes. This amount is adjusted for inflation, in $1,000 increments. Over a number of years, an annual gifting program can remove a substantial amount from your estate. For instance, if you and your spouse have three married children who have two children each, you can gift $288,000 annually ($24,000 for each child, child's spouse, and grandchild). Any future appreciation or income generated on those gifts is also removed from your estate.
- **Pay medical and education expenses for your heirs.** Certain amounts paid directly to institutions for these expenses can be made gift-tax free in addition to your annual gift tax exclusion amount.
- **Consider using your lifetime gift tax exclusion.** This exclusion is $1,000,000 and is in addition to your annual gift tax exclusion. Thus, those with estates large enough to be subject to estate taxes should consider using this exclusion to remove assets from their taxable estate. This also removes any future appreciation or income generated on those gifts from your estate. Lifetime gifts over $1,000,000 are subject to gift taxes, with the maximum gift tax rate equal to the maximum estate tax rate through 2009 and then equal to the maximum individual income tax rate.
- **Look for ways to maximize the benefit of your exclusion amounts.** For instance, individuals who transfer noncontrolling

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Married Couples and Their Estate Plans

Between the unlimited marital deduction (which allows married couples to leave any amount to their spouse without paying estate taxes) and rising estate exemption amounts, many married couples may not feel much need to plan their estates. Before reaching that conclusion, consider these items:

- **Estate taxes still need to be considered.** While the estate tax exemption amount is increasing (from $2,000,000 in 2007 to $3,500,000 in 2009) and the estate tax will be repealed in 2010, this amount will drop back to $1,000,000 in 2011 unless further legislation is enacted. Thus, individuals with estates over $1,000,000 still need to consider ways to use their exclusion amounts to minimize estate taxes. Those with large estates probably don't want to leave their entire estate to their spouse. While that will avoid estate taxes on the first spouse's death, estate taxes may be owed after the second spouse's death if the estate is larger than the estate tax exemption. While increasing estate tax exemption amounts can make it more difficult to plan, you should still consider leaving part of your estate to other heirs. If you don't want to make outright distributions in case your spouse needs the assets, you can set up a trust (commonly referred to as a credit shelter or bypass trust) to hold those assets. Your spouse can then use the income and even some of the principal, with the remaining assets distributed to your heirs after his/her death.
- **Review whether you need a second trust.** You may also want to

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Using IRA Distributions for Charitable Contributions

As part of the Pension Protection Act of 2006, taxpayers age 70 1/2 and older can take tax-free distributions, up to $100,000 in 2006 and 2007, from traditional and Roth individual retirement accounts (IRAs) for charitable purposes. The income from the IRA is not included in gross income, and the charitable contribution cannot be deducted on the donor's tax return.

To qualify, the distribution must meet these conditions:

- The distribution must be made from an IRA. Distributions from 401(k) plans, SEPs, and SIMPLE plans do not qualify.
- Charitable contributions must be made to public charities, such as churches, hospitals, museums, and educational organizations. Contributions cannot be made to private foundations, donor advised funds, supporting organizations, or split-interest entities.
- The IRA owner must be at least age 70 1/2.
- The distribution must be made directly to the charity.
- The distribution must otherwise be fully deductible as a charitable contribution. Thus, the donor must not receive any benefit from the contribution or the entire distribution is disqualified from IRA charitable rollover treatment. The donor must obtain a written acknowledgement from the charity that no goods or services were received in return for the contribution.
- The distribution must otherwise be included in gross income. Thus, only the taxable portion of the IRA distribution qualifies. If a nontaxable distribution is taken from the IRA, the IRA owner would not have to include the distribution in income and could take a charitable contribution deduction. Qualified distributions from an IRA to charity are deemed to come first from the taxable portion of the IRA, leaving the maximum amount of tax-free dollars in the IRA.

The provision is expected to benefit taxpayers who do not itemize deductions, who want to donate more than they can currently deduct as a charitable contribution, or who find that excluding the distribution from gross income will allow them to retain other tax benefits, such as allowing a higher percentage of their medical expenses to be deducted or subjecting less of their Social Security income to income taxes. Please call if you'd like to discuss this in more detail.

Married Couples

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control the remainder of your estate that is not placed in the bypass trust. Leaving the remaining assets to your spouse means he/she will control the ultimate distribution of those assets. Thus, if your spouse remarries, his/her new spouse may inherit some or all of those assets. Or, if you have children from a previous marriage, you may want to ensure those children receive a portion of your estate. Typically, a qualified terminable interest property trust (commonly referred to as a QTIP trust) is used in those situations. Any assets not placed in the bypass trust are placed in the QTIP trust, with income distributed to your spouse during his/her lifetime. This qualifies for the unlimited marital deduction, so estate taxes won't be assessed when you die. After your spouse's death, the principal is distributed to the heirs you designated.

- **Determine whether a disclaimer provision should be added to your estate planning documents.** This provision details what happens if one of your heirs disclaims his/her inheritance. With the estate tax exemption amount fluctuating over the next several years, this provides a way for heirs to decide after your death how much should be placed in various trusts. This leaves a great deal of flexibility with your heirs, so the strategy should only be used if you trust their judgment.
- **Consider preserving your generation-skipping transfer tax amount.** Leaving assets to wealthy children often means estate taxes will be paid when your children receive the assets and then again when your grandchildren receive the assets. Bequeathing the assets directly to the second or third generation can reduce estate taxes. However, the generation-skipping transfer (GST) tax, which is set at the highest estate tax rate, will apply to amounts transferred in excess of your GST exemption, which follows the estate tax exemption schedule. Again, if you don't want to make outright gifts to heirs, you can set up a trust so your spouse has access to the funds during his/her lifetime.
- **Check beneficiary designations and joint ownership of assets.** Assets like life insurance, annuities, 401(k) plans, and individual retirement accounts will pass directly to beneficiaries, while joint assets, including bank accounts, investment accounts, and real estate, will pass directly to the joint owner. Provisions in your will and other estate planning documents cannot change those designations. Thus, review beneficiaries and joint owners to ensure that assets will transfer as you wish. Tax and estate planning considerations may make another individual a better choice.

Please call if you'd like to review your estate plan in more detail.

Gifting Strategy

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interests in businesses, farms, real estate, and other assets during their lifetime may be able to assign a minority interest discount to the gift's value. Gifting assets to certain types of trusts, such as qualified personal residence trusts and grantor retained annuity trusts, allows you to place an asset in trust now, use the asset for a period of time, and thus place a lower value on the gift.

- **Consider delaying taxable gifts.** The scheduled phaseout and repeal of the estate tax means that more estates will be able to avoid the payment of estate taxes. Thus, you may want to wait before making taxable gifts.
- **Gift property that has the potential to increase in value, but has not already done so.** A lifetime gift's tax basis remains your original basis plus any gift tax paid. Thus, if you gift an asset with a low basis, your heirs could owe significant capital gains taxes when the asset is sold.
- **Make charitable contributions during your lifetime.** Charitable contributions made after death are free of estate taxes, making them a significant component of many estate plans. With the future of the estate tax uncertain, you may want to make charitable contributions during your life. Those contributions still reduce your taxable estate and will also allow you to receive an income tax deduction for the contributions.
- **Keep your own needs in mind.** While gifting can be a valuable estate planning strategy, you don't want to gift so much of your estate that you have difficulty making ends meet later in life.

Organizing Your Estate for Heirs

Don't think you're finished with the estate planning process once a will, trusts, and other estate planning documents are in place. From your heirs' point of view, it's just as important for you to organize paperwork and inform them of basic decisions. One way to approach this task in a systematic manner is to prepare a notebook including the following items:

- **Net worth statement.** An up-to-date net worth statement is a good way to ensure heirs are aware of every asset and liability. Make sure to list all pertinent information for each item on the statement, including account numbers, contact names, and phone numbers. Identify where important documents are kept, including deeds, loan agreements, insurance policies, etc. You may also want to explain your rationale for the distribution of your estate. You can go into specific detail, informing heirs how each asset will be distributed, or you can give a general overview of your estate plan. If you selected one heir as executor or trustee, explain why you chose that individual.
- **Individuals to contact.** List names, addresses, and telephone numbers of individuals your heirs may need to contact, including employers, attorneys, accountants, insurance agents, investment managers, and financial planners.
- **Personal papers.** Indicate where personal records are kept, including your birth certificate, marriage certificate, divorce or separation agreements, diplomas, military records, and naturalization records.
- **Safe deposit box.** Indicate where the safe deposit box is located and what is contained in the box. Note where the key is kept and who has access to the box.
- **Disposition of personal items.** Detail how you would like personal items distributed, including jewelry, photographs, personal collections, and furniture. Often, disputes over personal possessions are more apt to cause conflict among heirs than disputes over money, so explain your rationale for the distribution of personal items. After you have decided how to distribute your most valued possessions, come up with a method for heirs to distribute the remainder. It can be as simple as heirs taking turns to select the items they want, or flipping a coin if more than one individual is interested in the item.
- **Last wishes.** Indicate your preferences for funeral arrangements, including whether you want a religious or secular service, whether you want flowers or donations to a charity, whether you want to donate your organs or body to medical institutions, and where you would like to be buried. These are details your heirs may feel uncomfortable asking about, but will be grateful your wishes are known so they can be carried out. Also, list any friends or family you would like contacted after your death.

Your thoughts on these subjects can change over time, so review and update the information periodically. Keep it in a place where heirs can find it immediately after your death. Please call if you'd like to discuss this topic in more detail.

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FR2006-1211-0114

In the News

Philip Lee was quoted in a *May Boston Business Journal* article on "How to: Choose a Financial Advisor." He noted the chief difference between a financial advisor and an accountant is perspective. "A financial advisor is a bit more forward-looking" regarding cash flow, benefits planning, investments and estate planning. An accountant typically is looking back at prior transactions.

Philip Lee

Client Services

A survey, polling the views of a random sampling of clients, was conducted in April. The results are currently being compiled and the information will be used to identify new initiatives that may further client goals. Thank you to those clients who took the time to complete the survey that was coordinated by **David Young.**

Bob Siefert, Ed Childs and **Meghan Sanders** are working on a new project to offer 401(k) retirement plans to small businesses.

In March **John LeBlanc** enjoyed a drive from Amelia Island in the north of Florida to Miami in the south while making five client visits.

COCO+CO., a Ward Hill-based corporate communications firm, has been retained by BBFG to help improve the "look and feel" of client materials.

Technology

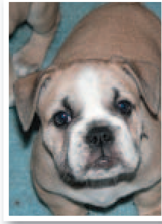
Becky Martz, with assistance from **Mandy Magee**, has adopted desktop faxing to speed processing of account applications and related material.

All Work and No Play…

John LeBlanc vacationed in Southern Germany, including the Black Forest region and the Rhine River Valley. **Bob Siefert** and his wife, Maureen, relaxed in Naples, Fla. for a week in March. Coincidentally, several clients were nearby and Bob socialized while resisting the urge to discuss estate planning.

Christina Aylward, who has interned at the firm since 2005, graduated from Boston College and is pursuing both careers and academic advancement in economics.

Emily O'Hara took on the persona of a tourist when her mom visited from California. They toured the JFK Library, walked the Freedom Trail, and went on a Duck Tour. Emily also announced an addition to her family – an English Bulldog puppy named Bullger! Emily wanted to make Bullger BBFG's mascot, but Bob and John reluctantly declined.



Bullger

During April vacation, **Philip Lee** took a 2,000-mile road trip south, visiting Savannah, Ga., Charleston, S.C., and their barrier islands.

After 12 years of living in Boston's South End neighborhood, **Ed Childs** recently relocated to Jamaica Plain.

Lindsay McDonald watched the Boston Marathon live for the first time in April and is now inspired to consider a future run. She also went Brooklyn in March to celebrate her birthday with friends. Staying on the topic of birthdays, **Jeanne Gibson Sullivan** reached a milestone in March, turning 50. During the quarter she returned to two of her alma maters, speaking to a group of Mount Holyoke seniors about basic financial planning and listening to former Lieutenant Gov. Evelyn Murphy speak on equal pay for women at Fletcher School at Tufts University.

Giving Back

Bob Siefert, Philip Lee and **Becky Martz** met frequently to identify, research, and discuss which Boston charitable organizations will receive BBFG Donor Advised Funds in 2007. Four different organizations were identified (*Please see the attached insert.*)

Continuing Education

Baby Boomers' retirement and investment needs are likely to be different from prior generations of retirees. **John LeBlanc** took back the message from Fidelity's Registered Investment Advisor Group's Executive Forum Conference in early May in Florida. Other highlights included presentations by MIT's AgeLab on the issues of aging, Fidelity Research Institute's latest research on lifetime income strategies and Harvard Economics Professor David I. Laibson on the "Psychology of Financial Decision-Making."

Retirement income planning and tax-deferred savings were also high on the agenda when **Bob Siefert** and **Susan Brown** attended the National Association of Personal Financial Advisors (NAPFA) annual conference during early May in Chicago.

Susan Brown also attended the monthly study group of the Massachusetts Chapter of NAPFA in March where Michael E. Kitces, a financial planner, gave a presentation on "Trusts as Beneficiaries of IRA's." In light of IRS rule changes, heirs need to be aware of the most tax-effective means of using inherited IRA accounts. Susan also attended a day-long seminar on Baby Boomers in Retirement presented by Fidelity in March.

Susan joined **Jeanne Gibson Sullivan** and **Francis Sellers** at a regional meeting of the Financial Planning Association on May 11. The full-day meeting included presentations on elder care, long-term care insurance and global investing, as well as a high-energy presentation from Benjamin Zander, conductor of the Boston Philharmonic Orchestra. One astounding take-away from the meeting was the fact that full-time home health assistance in this area can cost $175,000 to $250,000 per year.

Jeanne Gibson Sulivan

Philip Lee attended a NAPFA meeting on special Disability Insurance policies to cover retirement plan savings.

Mary Evans participated in recent webinars on insurance and Employee Retirement Income Security Act (ERISA) topics. She and **Emily O'Hara** also attended a WBZ Business Breakfast at the Westin Copley where CBS Evening News Anchor Katie Couric was the keynote speaker. Emily also finished her 4th semester at Bentley College where she is working toward a Masters in Financial Planning and preparing for the CFP® exam.