

How can we integrate life and money? How can we positively enrich our children, grandchildren or favorite charitable cause for the next 100 years or more? In this newsletter, we present information and ideas that may powerfully impact your family and community for many generations. We hope you find this summary of the new tax law and resources on ethical wills helpful and inspiring.

Please call anytime and let us know if there are any changes in your financial situation or investment objectives. Wishing you the very best.

Good News For Investors in Tax Reform Legislation

The new Tax Increase Prevention and Reconciliation Act (TIPRA) alters the Internal Revenue Code in ways distinctly friendly to taxpayers.

The first important TIPRA change is the extension, through December 31, 2010, of the 15% tax rate on qualified dividends and long-term capital gains (profits on investments held more than one year). Meanwhile, investors in the lowest income brackets pay no tax on a portion of their gains in 2008 through 2010. Under prior law, these attractive rates were set to expire at the end of '08, after which capital gains would again be taxed at 20% and dividends would be treated as ordinary income.

The second positive change in the new law provides some relief from the alternative minimum tax for 2006. TIPRA's increase in the amount that's exempt from AMT – up to \$62,550 for joint filers and \$42,500 for single – will save an estimated 15 million taxpayers from owing the alternative tax. Although this AMT tax break applies only in 2006, Congress has now bumped up the AMT exemption four times in the past five years – further reason for keeping your eye on the ball when it comes to tax planning.

Another TIPRA change that will become effective in 2010, could have major long-term significance for higher paid investors. This potent change enables every taxpayer, regardless of earnings, to convert a traditional individual retirement account (IRA) into a Roth IRA beginning January 1, 2010. Until then, individuals with incomes exceeding \$100,000 can not make the conversion.

Roth IRAs were created in 1997 to let investors accumulate wealth on a tax-free basis. Funds have to stay in the account for five years before earnings attain tax-free status, but unlike regular IRAs that require you to take out money beginning at age 70½, a Roth never forces

distributions. And if you leave a Roth IRA to heirs, though they must make specified annual withdrawals, those distributions are tax-free.

Who should convert? It makes the most sense if you don't plan to tap the account for some time and, when you begin withdrawals, you expect your tax bracket to be the same or higher than when you converted the account. Transforming an IRA into a Roth requires paying tax at your ordinary rate on the account's current value, minus any non-deductible contributions.

Retirees who don't need to tap their Roth during their lifetime, may gift their children 50 times the original Roth value and young grandchildren over 800 times the amount! For example, assume a \$100,000 initial Roth conversion. Over a 35 year period the account would grow to \$1,067,000 at 7% annually. At the time of the second parent's death, adult children would be required to start receiving distributions based on their life expectancy; a 48 year old adult child could elect to receive tax-free

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distributions over a 36 year period! This would result in \$4,654,000 of cumulative tax-free Roth distributions based on 7% growth. That's almost 50 times the original account value! With grandchildren as beneficiaries, the potential outcomes are staggering. Assuming 8% annual growth, a \$100,000 Roth would grow to \$2,172,000 in 40 years. Thereafter, a 15 year old grandchild could receive cumulative distributions of \$80,807,000 during the

next 68 years or over 800 times the original amount!

This miracle of compound tax-free growth makes the Roth IRA a powerful legacy instrument, able to provide an abundant harvest for 100 years or more!

Note that although Roth distributions are income tax-free, the account value is subject to estate tax like any other asset. However, one can also earmark a regular IRA to a favorite charity, avoiding both income and estate tax. We can assist you with IRA and Roth conversion strategies and would be pleased to discuss these possibilities with you

TIPRA also presents an opportunity if you earn too much to contribute to a Roth each year (the cut-off is \$160,000 if married, \$110,000 if single). You might consider making non-deductible contributions to a traditional IRA starting this year, with the goal of flipping the account to a Roth come 2010. Tax would be due only on the earnings in the account. The maximum contribution in 2006 is \$4,000 (plus \$1,000 more if you

are at least age 50), and it rises to \$5,000 in 2008. When you make non-deductible IRA contributions, you must file IRS Form 8606 along with your tax return.

How much you pay to convert is also an important consideration. You may be able to offset some or all of a conversion's income by taking losses or deductions that year. Moreover, converting in 2010 offers flexibility not available later. You can declare the entire taxable amount on your 2010 return, or you can pay tax on half in 2011 and the rest in 2012. But even then, there's a fly in the ointment. In 2011, tax rates are slated to return to higher, pre-2001 levels. Thoughtful planning is critical.

The Ethical Will: How to Leave Your Wisdom

You are far more than the sum of your possessions. Yet when it comes to bequests, your last will and testament probably deals just with concrete assets. What happens to the intangibles: the wisdom, values, experiences, and stories you've accumulated over the years?

Enter the ethical will. In its simplest form, an ethical will sets forth the moral and spiritual "capital" you may want to leave to the next generation. While not a legal document, this message to your heirs is often recommended by attorneys and financial advisors as a tool for establishing a family legacy built on pillars you hold dear.

Almost anything can go into an ethical will. Some people pass along the life lessons they've learned over the years. Others articulate specific moral values, describe mistakes they've learned from, fill in the context surrounding major events of their lives, articulate spiritual beliefs, recommend meaningful books, share funny experiences, and express their love. Some even ask or bestow forgiveness. Though in many cases, those for whom ethical wills are intended – family, friends, even organizations – have heard these insights before, this sets them down in a tangible, immutable form.

With today's technology, creators of ethical wills are no longer confined to acid-free paper and fade-resistant ink (both are recommended if you do use pen and paper). You can not only record your wishes on audiotape, but also create an entire DVD, complete with video clips, photographs, navigation, and music. This allows loved ones to read your words and pick up your inflections, adding shades of meaning to your message.

The benefits, however, are not just for those left behind. Many of those who draw up an ethical will find it gives them a deeper, clearer understanding of their own value systems or life stories. That's an argument for creating one well before the end of life. A couple could use this tool to learn more about each other before the wedding, or as they start a family. Those in midlife or about to retire could use an ethical will to clarify the direction for the next stage of their life.

Families in business together might also benefit

from creating ethical wills. All too often, after the death of the parent who ran the company, heirs will bicker about a business's future direction, frequently invoking "what Mom and Dad would want." An ethical will, thoughtfully set forth by the head of the family, can give descendants a shared framework and clarify the business's original values.

Susan Turnbull, whose firm, Your Ethical Will (yourethicalwill.com), writes ethical wills and describes them as the "soul" of your estate plan. "All the documents you complete in the traditional financial planning process answer the question, 'What do I want my loved ones to have?' Your ethical will is where you answer, 'What do I want my loved ones to know?' What people really care about leaving is their spirit and ideas. We have a legacy of wealth and property, but we also have a legacy of values and beliefs."

While an ethical will may be cherished by your family and community, you are the first beneficiary, Turnbull says. "Reflecting on your life is always healthy," she says. "If you choose to share the document during your lifetime, as many do, it can invite meaningful dialogue. It could even help you reach out to estranged friends and family members." And once you create this touchstone, you may not want to stop there. You may just want to go ahead and use it as a framework for drafting your estate plan for your financial assets.

Drafting an ethical will can be a creative, heartwarming exercise. Just carefully reflect on what you want to say to those dear to you, and then create your will in any form or format that appeals to you. This simple, straightforward act could have a profound impact on generations to come.

To find out more about why and how to make an ethical will:

www.ethicalwill.com
www.pricelessmemories.com
www.yourethicalwill.com

One method to get started is to answer questions like the following:

- What are the lessons that you have learned in life?
- What are you most proud of?
- If you only had a day to live, what would you regret?
- What are your spiritual beliefs?
- What will you miss most when you are gone?
- If you only had a year left to live, what would you do?

Articles are written by Craig Hillegas and financial journalists, and are general information not intended as advice to individuals.