MARJORIE S. SCHULTZ & ASSOCIATES
Attorneys At Law

MARJORIE S. SCHULTZ
LAURA K. DEVITT

Courtlandt Square
3401 Louisiana Street, Suite 380
Houston, Texas 77002
(713) 521-3434 - Telephone
(713) 521-1633 - Fax
mschultz@schultz-stock.com

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Dear Friends:

After the double shocks of Ike and the crashing economy, we're all just glad to be here to wish each of you a happy holiday season! We have a great deal to be thankful for, despite the major inconveniences caused by the loss of power and damage done to the firm's computer system. We're back up and fully operational, and we hope that you all are feeling back to normal, even if "normal" is now somewhat different!

ESTATE TAX DEVELOPMENTS

As expected, the election year was not conducive to passing new estate and gift tax legislation, although I still expect a bill to pass sometime next year. As you recall from prior newsletters, we will see a very significant increase in the estate tax exemption come January 1, 2009–from $2 million per person now to $3.5 million per person (or $7 million per family). Even before the economy had its problems, the estimate was that less than one-half of one percent of estates will now be taxable. While I don't foresee the total repeal of the estate tax, it does look like the exemption will be at least $3.5 million per person going forward.

LIFETIME GIVING

At this stage it does not look like the $1 million exemption for lifetime gifts will be increased, although the exemption for annual gifts is scheduled to increase from $12,000 to $13,000 in January. With the economic downturn, some of us need to assist parents whose incomes no longer support them, or siblings or children who have lost their jobs. In addition to the $13,000 per person per year we can give tax free, we should consider the following additional tax-effective gifts:

- Put money in a Section 529 education plan to provide college education for grandchildren or nieces and nephews.

- Pay medical and education expenses directly to the providers of services, that is pay tuition directly to the school and pay medical bills directly to doctors and hospitals. Especially with elderly parents, the chance to pay for medical expenses is an overlooked opportunity. You can cover anything that the person would be allowed to deduct on his or her tax return, such as unreimbursed expenses. This includes big-ticket items, like medically necessary home improvements or home care attendants. You can also pay part of another person's long term care insurance - up to $3,800 for someone 61-70 years old and up to $3,850 if they are over 70.

- Employ family members. Whether they provide child care, manage real estate, or keep the books - the compensation must be reasonable. Business owners who hire family members can also deduct at least part of the cost of health insurance and long term care insurance as a fringe benefit.

- Lend and Borrow Money. Credit between family members requires the formality of a bank loan, but the rates can be more favorable. If you lend money to family members, say to buy a house or car, start a business or pay off an unfavorable bank loan, you must charge a minimum rate of interest set each month by the Treasury, called the Applicable Federal Rate. The rate for such loans can be extremely attractive, between 2.5 - 5%, currently. Alternatively, you can benefit parents or siblings by borrowing money from them and paying more interest than they could get from money market accounts or bank CDs.

PLANNING IDEAS FOR LARGER ESTATES

For those of you whose estates will still be affected by the estate and gift tax, there are some gifting techniques that are quite attractive, given today's lower stock market values and low interest rates. One such technique is called a grantor retained annuity trust, or "GRAT". This is a special trust whereby the grantor setting up the trust retains the right to get property back over time, but if the assets have increased in value, the excess goes to the children with no gift tax consequences. Let us know if you want to know more about GRATs.

ATTENTION TO ALL OF YOU WHO ARE ACTING AS TRUSTEES

Be sure and update investment policies for your trusts. A trust portfolio can decline without causing liability to the trustee, so long as the trustee has developed a reasonable asset allocation model and monitored investments in light of that plan. The recent bad stock market will likely breed lawsuits: Was there a plan? Was it documented? Were the plan and/or documentation reasonable and appropriate? Angry beneficiaries with the benefit of hindsight may bring lawsuits testing the definitions and applications of the Uniform Prudent Investor Act as never before.

- Update distribution projections. The trustee should have the accountant and/or financial advisor prepare projections of how the stock market declines might affect distributions to current and remainder beneficiaries. Remember that under recently enacted state laws, a trustee must give an annual report to each current beneficiary of a trust, as well as persons who would become the beneficiaries should the current beneficiary pass away.

- Review the terms of the Trust. Few trustees regularly review the terms of the trust under which they are serving. The recent economic earthquake certainly warrants such a review. Take a fresh look at the governing documents and determine if there are any questions about required and/or permitted distributions. We would be glad to meet with you to discuss any of these matters about which you have concerns.

We hope the New Year brings prosperity, health and hope for all of us, here and around the world.