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For Whom the Bell Tolls! The Estate Tax Is Dead! (Maybe)

By Tom Trent, E.A.

Good news! As you no doubt have heard by now, the Estate Tax is dead. Gone. Adios. So long, farewell, auf wiedersehen, adieu, goodbye. In 2009 the tax was imposed on estates valued over a lifetime exemption of \$3,500,000 and the maximum tax rate was 45%. The Federal estate tax is repealed for 2010. But, due to a bizarre "sunset" provision in the Economic Growth and Tax Relief Act of 2001, in 2011, it returns with a vengeance. The exemption will decrease, to \$1,000,000, and the tax rate will revert to the pre-2001 maximum of 55%.



Another not so good change that occurred on January 1, 2010 relates to the tax basis of inherited assets. Tax basis determines how much gain

or loss you will recognize (and how much tax you will pay) when you sell an asset. Until this year, the tax basis of an inherited asset generally was its fair market value at the time of the owner's death. In the case of appreciated assets, this often had the effect of minimizing taxes upon the sale of such property. Additionally, determining that basis was relatively easy, at least for publicly traded stocks and other assets with established values. You just needed to know the date of death. But for 2010 (and under current law, 2010 only), this automatic change in basis will not occur. Instead, except for a step-up for \$3,000,000 in property acquired by a surviving spouse and another \$1,300,000 in total other inherited property, the beneficiary's basis will be the same as the decedent's. In the case of appreciated property, this will result in a higher tax on the sale. Worse, determining the basis of those assets could be a nightmare. How do you determine how much granddad paid for those 10,000 shares of IBM that have passed to you from your parents? And these "carryover" basis rules include strict reporting requirements, including supporting documentation and penalties for noncompliance. The alternative would be to just report the gain with no basis. Ouch!

Of course, the conventional wisdom was that none of this would ever happen. There was virtually universal consensus that Congress

would act before the end of 2009. The House did act, passing a bill that would have made the 2009 estate tax permanent. But CPAs, estate attorneys, and financial advisors were all stunned when the Senate failed to follow suit. Then, many of us believed that when they reconvened on January 19th, one of the top priorities would have been to enact at least a temporary "patch," retroactively extending the 2009 limits through 2010. That didn't happen either. And now that we are in the third month of 2010, retroactive application seems less likely. Based on recent history in Congress, who knows when, if, or how they will address the matter. Further complicating the issue are growing concerns about the national debt (restoring the old estate tax regime **would** raise revenue) and the fact that the entire House of Representatives is up for re-election this year and the politicians may just decide to leave the mess for the new House members to deal with.

So, how should you proceed? Good question. We emphatically recommend that you have a review of your estate plan performed in order to determine if the (possible) estate tax repeal will cause unintended consequences in the distribution of assets to beneficiaries. And there may be opportunities available if things remain the way they are. The challenge, however, lies in the uncertainty of what the

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ultimate estate planning landscape will be for 2010 and beyond. Any changes that you might currently make to your estate plan may be a mere temporary fix that will require further adjustment when and if Congress finally acts. Under current law, no estate tax will apply to those for whom the bell tolls from January 1, 2010 to an uncertain future (or past) date - maybe.

Our clients rely upon us to offer our professional advice. We can work with you and your attorney to review the likely impact of the current law on your estate plan. Or, you may chose to do nothing at present, assuming that Congress will act with retroactive legislation. However, we do not recommend this course of action. Our clients also know that when we don't see a clear course of action, we have both the confidence and integrity to state so. Unfortunately, this is one of those times. Feel free to let us know your thoughts and intentions concerning this important matter. Remember no decision is a decision – to leave the status quo.

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Our newsletter is available by email. We would be happy to add you to our list. Please contact us at newsletter@mfac-bizmgt.com.



TIPS AND ALERTS

Times Change Quickly. Should Your Motor Oil ?

By Tad Jakes, CFP®



Although oil prices have declined substantially, they have been on the rise again. One way to help keep oil prices lower is to conserve it whenever and wherever we can. One easy way to do this is by looking at how often we change the oil.

There is a familiar old saw that states that you should change your vehicle's oil every 3,000 miles, but does it hold true for today's vehicles? The truth is, that recommendation was largely based on old technology, both for cars and oil. The majority of the cars we are driving today are far more efficient and technologically advanced than they were just 10 years ago, and the same thing is true for the oil that we put into our cars' crankcases.

Many car manufactures today recommend that oil be changed every 5,000 miles, 7,500 miles or in some cases 10,000 miles. In addition, many motor oil brands advertise protection for 5,000 miles, 7,500 miles and even 15,000 miles in some cases.

Of course, the recommended change frequency for your vehicle can and will vary from these figures depending on your vehicle type, how old it is, how you drive, and what type of oil you use. The best advice is to ask the service manager at your dealership or your mechanic what they recommend.

Chances are it will be less frequent than every 3,000 miles. If that is the case, changing your oil less often will lead to lower oil consumption on your part. You can save some money with fewer trips to the auto shop for oil changes, and you will reduce your carbon footprint on our environment.

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Tax Notes

Haiti Donations

By Tom Trent, EA

Taxpayers who have made cash charitable contributions for Haiti earthquake relief between January 12 and March 1, 2010, can claim those deductions on their 2009 Federal tax returns. As of this writing, a California conformity bill is awaiting the Govern-



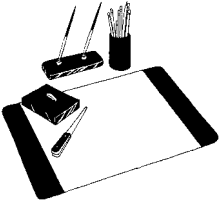
nor's signature. Rather than having to wait until the filing of their 2010 return, this law provides an immediate tax benefit. Cash contributions include those made by check, credit or debit card, or text message and must have been made specifically for the relief of victims in the areas affected by the January 12th earthquake.

This measure is similar to legislation passed in 2005 in the aftermath of the Indian Ocean tsunami that occurred in late 2004.

From The Corner Office

Investment and Economic Performance for 2009

By Mitchell Freedman, CPA/PFS, AIF®



What kind of year was 2009 from an investment perspective? Taken by itself and ignoring the period from October 2007 (peak) through March of 2009 (trough) it was a very good year for most sub-asset classes. High yield (junk) bonds increased well over 50%, mid-cap equities rose over 35%, large and small-cap equities each rose over 25%. In addition, international stocks of developed countries rose over 30% and intermediate term corporate bonds delivered a total return of over 15%. Even severely depressed real estate investments (REITS) increased nearly 30%. The only "bad" news was for intermediate term U.S. Government bonds which had a slightly negative total return, declining 1/3 of 1%.

Sounds great, right? Let's look under the hood of the numbers as statistics can be misleading if one doesn't fully examine or understand what they mean. From its all-time intraday high of 1,565 reached on October 9, 2007, to the intraday low of 667 reached on

March 6, 2009, the value of the S&P 500 Index had evaporated by a jaw-dropping 57%. Through December 31, 2009 The S&P 500 increased by 67% from the trough so the loss has been fully recovered, and then some, right? Not so! The Index would have had to increase a whopping 235% in order to reach its previous high. Numbers don't lie, so how can that be? The percentage increase was measured from a much lower number (667), so a 67% increase from that point doesn't get one anywhere near the values of the all-time high. Frankly, it's simple math, but the media doesn't always say things clearly when they try to tell a story and in some cases make their own news.

Nevertheless, it was still a very good year and these are the kinds of returns we have historically become accustomed to seeing in the periods shortly after major declines (crashes?) – Sometimes called "black-swan" or "fat-tail" events.

Where do we go from here? The Bureau of Economic Analysis of the Department of Commerce and The Fed have hinted and recent measurements seem to imply that "The Great

Recession" is over - or is it? Unemployment is still very high and on a national (and California) level does not seem to be ready to improve. As I have previously discussed, the unemployment rate does not measure, and I'm not aware of any reliable statistics that do, the many millions of Americans who are "under-employed." These are the individuals who couldn't find work at their previous salary levels and have been forced to take lower paying jobs just to receive a pay check. My personal view, one that is shared by many economists, is that even if we are out of recession we are not likely to see sustained robust growth in the industrialized world for the next several years.

So what is our plan for investments? We continue to monitor and tweak clients' portfolios in order to reduce risk and attempt to capture reasonable risk-adjusted returns while cushioning portfolio volatility. If and when we perceive opportunity with acceptable risk we will shift appropriate portions of clients' portfolios to attempt to take advantage of such opportunities.

Heard In The Hall

Mitch Freedman was featured in an article titled, "Investing Picture Requires a New Focus," in the Ventura County Star on January 2, 2010.

Mitch attended the AICPA Counsel Meeting in Las Vegas, NV, October 18-20, 2009. He also attended the AICPA Personal Financial Planning Networking Group meeting in Nashville, TN, November 4-6, 2009. Mitch attended his final meeting, after about 12 years, of the AICPA/CICA Prime-Plus/ElderCare Task Force November 10-11, 2009. At the conclusion of the

meeting he was presented with a plaque and a letter of appreciation from the CICA and an award for meritorious service from the AICPA. On November 12 and 19, 2009 Mitch gave presentations on personal financial planning for young physicians, interns and residents of LA County + USC Medical Center and Oakland Children's Hospital respectively. These presentations were sponsored by their union, The Committee for Interns and Residents. On November 23-24, Tom Trent and Karen Cho attended the CalCPA Tax

Update and Planning Conference. Mitch attended meetings of the CalCPA Personal Financial Planning and Communications Advisory Committees, in Los Angeles, on December 4 and 8, 2009 respectively. On December 10, 2009 he attended a Board of Directors Meeting of California Jump\$tart Coalition at the Los Angeles Branch of the Federal Reserve Bank of San Francisco. On December 16th, Tom Trent attended the Spidell year-end tax update seminar.

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