

# Planning Smart™

Spring 2006

**P**LANNING SMART IS A NEW FEATURE OF OUR *BECAUSE YOU CARE* News newsletter. Our goal is to provide you with additional information on the complicated financial, tax, and estate matters that affect you every day. Each issue is prepared by attorney Conrad Teitell, a nationally recognized estate planning and charitable giving attorney.

## The Annual Gift Tax Exclusion

### Even Better for 2006

**T**HE ANNUAL GIFT TAX EXCLUSION is an excellent way to give assets to family members and others without a gift tax bite or dipping into your \$1 million lifetime gift tax exemption. And now, for the first time in years, it's been increased for inflation.

### The Basics

Starting January 1, 2006, you will be able to give \$12,000 a year (up from \$11,000) in cash or assets to as many people as you like. They needn't be family members and you don't have to file a gift tax return. The value of a gift is not income to the recipient, but the new owner must include the asset's earnings in his or her gross income.

### "Gift-Splitting"

A married couple, by combining their exclusions, can give up to \$24,000 annually to as many individuals as they wish without paying gift tax or using their lifetime exemptions.

### Excludable Gifts for Tuition and Health Care

School tuition and medical care payments you make on behalf of another individual—no matter what the relationship—aren't taxable gifts. This exclusion is in addition to the

\$12,000 annual exclusion. The payments must be made directly to the school or the medical care provider.

### Good News for the Grandkids

Gifts that qualify for the \$12,000 annual exclusion don't reduce the generation-skipping transfer (GST) tax exemption nor are they subject to the GST or estate taxes.

### Year-End Gifts

Be careful when making year-end gifts by check or giving securities. The gift *must be completed* in the same year in which you want it to qualify for the annual exclusion.

### Gifts Made Using a Durable Power of Attorney

That legal document gives another person the authority to act on your behalf. In most states the power of attorney must specifically authorize the attorney-in-fact to make gifts on your behalf. The authorization can specify to whom gifts can be made (e.g., children or grandchildren) and

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## The Annual Gift Tax Exclusion

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limit the amount of each gift (e.g., gifts that qualify for the annual exclusion). Your attorney-in-fact can also be authorized to make charitable gifts and to fulfill charitable pledges.

### Caution

Don't overlook any state gift tax laws when making gifts to family members and others. The laws of almost all states exempt charitable gifts from gift and estate tax laws. As always, consult your adviser.

## Special Tax Benefits for Charitable Gifts

Gifts to The Humane Society of the United States are completely exempt from federal gift tax and, if you itemize, are deductible on your income tax return. Life-income gifts offer additional tax benefits—capital gains tax is avoided or greatly reduced when you transfer appreciated assets and your often-higher income is favorably taxed. Charitable gifts made by will qualify for the unlimited estate tax charitable deduction.

## A New Way to Save

### The Roth 401(k)

**S**TARTING JANUARY 1, 2006, THERE IS A NEW retirement plan—the Roth 401(k)—with a big plus: There's no income ceiling on participation. The new plan, which may not be available from all employers, is a hybrid of the Roth IRA and the traditional 401(k). Here are some details.

- **You can contribute up to \$15,000** a year with additional \$5,000 "catch-up" contributions starting the year you reach 50 years of age. All contributions are made with after-tax dollars.
- **For individuals who already hold traditional 401(k) plans**, the \$15,000 limit applies to the total contributions to both plans. You won't be able to contribute \$15,000 to each.
- **Matching employer contributions** will continue to be made with pretax dollars, held in a separate account and taxed on withdrawal.
- **Qualified distributions can begin with no penalty** at age 59 (after you have held the plan for at least five years), on disability, or at death.

- **All qualified distributions**—both contributions and investment earnings—will be tax-free.
- **You must begin taking distributions** the year after you reach age 70. But a Roth 401(k) can be rolled over into a Roth IRA, with no annual distribution requirements, and continue accumulating tax-free.
- **The Roth 401(k) "sunsets" in 2010** unless renewed by Congress and is not for everyone. Consult your adviser about its suitability for you.



### Another Way to Supplement Retirement Income

We'd like to tell you about The HSUS's life-income plans and how they could fulfill your financial and philanthropic goals. Just call us at 1-800-808-7858 or e-mail [gifts@hsus.org](mailto:gifts@hsus.org).

## Do You Know Where Your Tax Refund Is?

**Y**OU FILED YOUR INCOME tax return on time and now you're due a refund. Fortunately, the IRS has made it easier to find out when the check from Uncle Sam will arrive.

### When Can You Expect Your Refund?

That depends on how you filed your return and the method of payment. E-filers using direct deposit should get their refunds within three weeks; for paper filers receiving checks the wait is eight

weeks. Refund information is available (three weeks after e-filing and six weeks after filing by mail) by visiting [www.irs.gov](http://www.irs.gov) and going to Where's My Refund?, or by calling the refund hotline at 1-800-829-1954. Have your Social Security number, filing status, and refund amount ready.

### Does the IRS Know Where to Find You?

Last year more than 84,000 taxpayers failed to receive checks due to incorrect addresses. If

you've moved since your last filing you must file Form 8822. The change of address form is available by visiting [www.irs.gov](http://www.irs.gov) or calling 1-800-829-3676.

### Consider Direct Deposit

This service—available for both paper and e-filers—not only expedites refunds but guards against theft and loss.

# Estate Planning

## A Blueprint for You and Your Family

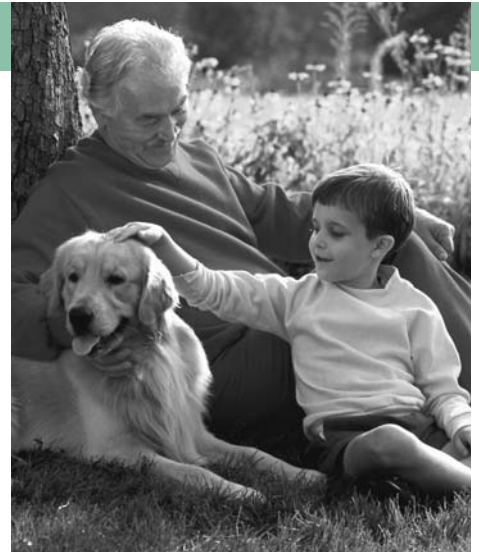
**A**N EFFECTIVE ESTATE PLAN is more than a will. It's a way to carry out your wishes—for your financial security in retirement, your philanthropic goals, your family's future. A good plan can increase spendable income now, minimize taxes, reduce probate costs, and prevent erosion by inflation.

### How to Begin

- **List those you wish to benefit.** Include full names, ages, relationship, domicile, and family and financial circumstances. Do you want to give a set amount or a percentage of your estate?
- **Plan and provide for your pet's future** without you. The HSUS offers a free kit complete with a six-page fact sheet, wallet alert cards, emergency window/door decals, and caregiver information forms. Write to Humane Legacy, The HSUS, 2100 L Street NW, Washington, DC 20037; e-mail [petsinwills@hsus.org](mailto:petsinwills@hsus.org); or call 1-800-808-7858 to order your kit. A fact sheet is available online at [www.hsus.org/petsinwills](http://www.hsus.org/petsinwills).



- **List the charitable organizations you wish to benefit**—now and by will. Life-income charitable gifts are now an important part of many retirement and estate plans. We'd be happy to talk with you and your adviser about current tax benefits and other advantages of our various life-income plans.
- **Consider the pros and cons of lifetime transfers of assets.** The \$12,000 per donee annual gift tax exclusion is an excellent way to pass assets tax-free to family members. Your lawyer can advise you on other ways that fit your unique circumstances.
- **Review life insurance and pension plan beneficiaries** and payment options. Life insurance and pension plan proceeds are usually paid directly to the named beneficiaries without legal proceedings unless your estate (or the trustee under your living will) is named.
- **Maintain detailed and up-to-date records.** Keep a detailed inventory of your assets (including cost basis and holding period) and debts (including mortgages, loans, and taxes) and where records and important papers are located. Tell your executor where the list can be found.
- **Draw a will (or living trust).** A will lets you decide to whom and how your property will be distributed. It enables you to choose an executor and a



trustee, designate guardians for minor children, provide for a pet, create trusts for young or inexperienced heirs, and minimize fees and estate taxes.

- **Create (and keep current) a living will or medical directive.** Also have a durable power of attorney for financial matters that specifies who will handle your financial matters if you became incompetent.
- **Your will or living trust should change with circumstances.** Review your will and estate plan periodically. Needs, concerns, and goals change; children become independent; grandchildren are born; and loved ones die. Your wealth may increase or decrease. Tax laws change, too—yet another reason to review your will or living trust. You can change your will at any time by executing a new will or a codicil (an amendment or addition to an existing will). Living trusts can also be modified.

## Save Taxes and Support The HSUS

**WE HOPE YOU'LL CONSIDER A LIFETIME** gift or bequest when planning your estate.

Our life-income plans provide payments for you and a survivor, with no investment concerns and an immediate income tax charitable deduction for itemizers. Visit [www.hsus.org/annuity](http://www.hsus.org/annuity) for more information on this giving option.

The unlimited estate tax charitable deduction provides substantial savings for our donors. Visit [www.humanelegacy.org](http://www.humanelegacy.org) for more information.

We'd like to give you information about the most advantageous ways to make life-income gifts and bequests. Contact us at 1-800-808-7858, visit [www.hsus.org/gifts](http://www.hsus.org/gifts), or e-mail [gifts@hsus.org](mailto:gifts@hsus.org) to find out more.

# BUYING PEACE OF MIND

## Insurance Means Disaster Preparedness

Even if you've never had so much as a wet basement, consider the destruction that hurricanes have brought to the Gulf Coast and adjacent inland areas in the last year. Floods are the number one natural hazard in the United States—and few homeowners' insurance policies cover flood damage.

The National Flood Insurance Program (NFIP) was created by Congress to mitigate flood losses and reduce the cost of disaster relief for the government. Today, almost 20,000 communities across the country participate in the NFIP by adopting ordinances to reduce future flood damage. Federally backed flood insurance—funded by premiums, not tax dollars—is available to homeowners, renters, and business owners in those communities.

## Floods Occur in Every State

They can accompany other natural disasters like storms, early snowmelt, rising rivers, and—as we've seen—hurricanes. Road construction and large projects like shopping malls and residential and industrial complexes all reduce the land's natural ability to absorb water, increasing runoff and the risk of flooding.

Even if you don't live near a river, lake, or stream or on the coast, you're living in a possible flood zone. In 2004, NFIP paid out more than \$1.2 million for damage to real and personal property, and about 25 percent of flood insurance claims each year come from outside high risk areas.

## What Does a Flood Insurance Policy Cover?

The NFIP offers two types of policies: coverage up to \$250,000 for residential buildings—condominiums as well as single and multifamily homes—and up to \$100,000 for personal property, purchased separately. These policies pay the actual cash value of your losses (the replacement cost less any depreciation) up to the policy limit.

Building coverage includes permanently installed fixtures such as built-in shelving and cabinetry, furnaces, hot-water heaters, plumbing fixtures, dishwashers, and other kitchen appliances. Personal property coverage includes clothing, furniture, books, home electronics, rugs, drapes, and the like.

## What Does It Cost?

On average, a homeowner policy costs about \$400 a year for \$100,000 of coverage. But that's just the average. Your cost will depend on a number of variables (e.g., where you live, when your house was built, and what deductible you've chosen).

Two examples: \$250,000 coverage for your home and \$100,000 for its contents in a high-risk zone (with a \$1,000 deductible) could cost \$1,822 a year; \$35,000/\$10,000 coverage (with a \$500 deductible) might be as little as \$302.

## How Do You Buy Flood Insurance?

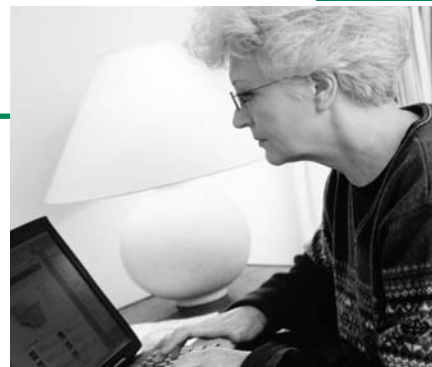
Call your insurance agent or the NFIP (1-888-724-6924) for the name of an agent in your area. There are also listings on several websites (see below).

## Find Out More

You can get general information about flood insurance coverage at [www.fema.gov](http://www.fema.gov) and [www.floodsmart.gov](http://www.floodsmart.gov) or by calling 1-800-427-2419. If you want to know what flood-hazard zone your property is in, visit [www.store.msc.fema.gov](http://www.store.msc.fema.gov) and use the map search function or ask to see the flood-hazard maps at your city or town hall. Call 1-877-336-2627 if you have further zone-related questions.

## Protect Your Pets

Floods, fires, earthquakes, and other disasters can strike any time and any place. Preparation is the only way to ensure the safety of your pets. Contact The HSUS's Disaster Services staff at 2100 L Street, NW, Washington DC 20037, or visit [www.hsus.org/disaster](http://www.hsus.org/disaster) for more information.



Protecting the protection of all animals

**THE HUMANE SOCIETY  
OF THE UNITED STATES**



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2100 L Street, NW, Washington, DC 20037  
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