

**AMBRECHT & ASSOCIATES**

Santa Barbara, CA

***Summary of the  
Economic Growth and Tax Relief Reconciliation Act of 2001***

*The Tax Act expires on December 31, 2010,  
so all provisions will revert to current law on January 1, 2011,  
unless further legislation is adopted before then.*

**Changes to Income Taxes**

| Current<br>Income Tax<br>Rates | New Tax Act    |             |             |             |                  |
|--------------------------------|----------------|-------------|-------------|-------------|------------------|
|                                | Eff. 7/1/2001  | 2002 & 2003 | 2004 & 2005 | 2006 - 2010 | 2011 & Following |
| 15.0%                          | Refund Credit* | Partial 10% | 10.0%       | 10.0%       | 15.0%            |
| 28.0%                          | 27.0%          | 27.0%       | 26.0%       | 25.0%       | 28.0%            |
| 31.0%                          | 30.0%          | 30.0%       | 29.0%       | 28.0%       | 31.0%            |
| 36.0%                          | 35.0%          | 35.0%       | 34.0%       | 33.0%       | 36.0%            |
| 39.6%                          | 38.6%          | 38.6%       | 37.6%       | 35.0%       | 39.6%            |

\* This refund credit is to be sent as refund checks of \$300 to most taxpayers (\$600 for joint filers, \$500 for heads of household) based on eligibility from 2000 filed returns.

- The Act reduces taxes for higher-bracket taxpayers through the gradual (1/3 in 2006, 2/3 in 2008, and eliminated in 2010) elimination of the overall limitation on itemized deductions and the phase-out for personal exemptions.
- Limited Alternative Minimum Tax Relief is provided by increasing the exemption amount (for married couples filing jointly by \$4,000; for other taxpayers by \$2,000) between 2001 and 2004.
- “Marriage penalty” relief comes in gradually between 2005 and 2008, but is of limited benefit to taxpayers who itemize their deductions and so do not claim the standard deduction.
- The Act permits greater contributions to tax-advantaged savings plans, such as IRAs and 401(k)s. The contribution limits for both traditional and Roth IRAs will rise to \$3,000 next year and \$5,000 in 2008, with annual adjustments for inflation thereafter; persons 50 and over can add an additional \$500 next year and an additional \$1,000 beginning in 2006. The limit on 401(k) contributions will rise gradually from \$10,500 to \$15,000 by 2006; but right now this portion of the law will expire in 2011. In addition, a new “Roth 401(k)” provision will enable employers to provide benefits similar to a Roth IRA for their employees.
- The Act gradually increases contribution limits for Educational IRAs, increases the dependent-care credit, expands qualified tuition plans (with a new deduction), raises the adoption credit, and gradually increases the child tax credit to \$1,000 by 2010.

**Changes to Estate, Gift, and Generation-Skipping Transfer (GST) Taxes**

Estate and generation skipping transfer (GST) taxes are eliminated for estates of persons dying in 2010; after January 1, 2011, current law comes back into effect. The gift tax is not eliminated.

| <b>ESTATE AND GIFT TAX EXEMPTION AMOUNTS</b>                |   |   |   |
|---|---|---|---|
| <b>Year<br/>(Year of Decedent's Death, or Year of Gift)</b> | <b>1997 Act Applicable Exclusion Amount (Estate &amp; Gift Taxes)</b> | <b>2001 Act <u>Estate</u> Tax Exemption</b> | <b>2001 Act <u>Gift</u> Tax Exemption</b> |
| 2000  | 675,000   |   |   |
| 2001  | 675,000   | 675,000                                     | 675,000                                   |
| 2002  | 700,000   | 1,000,000                                   | 1,000,000                                 |
| 2003  | 700,000   | 1,000,000                                   | 1,000,000                                 |
| 2004  | 850,000   | 1,500,000                                   | 1,000,000                                 |
| 2005  | 950,000   | 1,500,000                                   | 1,000,000                                 |
| 2006  | 1,000,000   | 2,000,000                                   | 1,000,000                                 |
| 2007  | 1,000,000   | 2,000,000                                   | 1,000,000                                 |
| 2008  | 1,000,000   | 2,000,000                                   | 1,000,000                                 |
| 2009  | 1,000,000   | 3,500,000                                   | 1,000,000                                 |
| 2010  | 1,000,000   | 0   | 1,000,000                                 |
| 2011 & Following Years                                      | 1,000,000   | 1,000,000                                   | 1,000,000                                 |

| <b>GENERATION SKIPPING TRANSFER TAX EXEMPTION</b>           |  |   |  |   |
|---|--|---|--|---|
| <b>Year<br/>(Year of Decedent's Death, or Year of Gift)</b> | <b>1997 Act GST Exemption (Adjusted for Inflation each year -- \$10,000 for each 1% CPI)</b> |   | <b>2001 Act GST Exemption (2004-2010 is equal to Estate Tax Exemption)</b> |   |
| 2001  | 1,060,000  |   |  |   |
| 2002  | 1,060,000  |   | 1,060,000  | * |
| 2003  | 1,060,000  |   | 1,060,000  | * |
| 2004  | 1,060,000  |   | 1,500,000  |   |
| 2005  | 1,060,000  |   | 1,500,000  |   |
| 2006  | 1,060,000  |   | 2,000,000  |   |
| 2007  | 1,060,000  |   | 2,000,000  |   |
| 2008  | 1,060,000  |   | 2,000,000  |   |
| 2009  | 1,060,000  |   | 3,500,000  |   |
| 2010  | 1,060,000  |   | 0  | * |
| 2011 & Following  | 1,060,000  | * | 1,060,000  | * |
| * plus future inflation adjustments                         |  |   |  |   |

| <b>ESTATE AND GIFT MAXIMUM TAX RATES</b>                                |  |   |  |
|---|--|---|--|
| <b>Year<br/>(Year of<br/>Decedent's<br/>Death, or Year<br/>of Gift)</b> | <b>1997 Act<br/>Estate &amp; Gift<br/>Tax<br/>Maximum<br/>Rate</b> | <b>2001 Act<br/>Estate Tax<br/>Maximum<br/>Rate</b> | <b>2001 Act Gift<br/>Tax Maximum<br/>Rate</b>                  |
| 2001  | 55%  | 55%   | 55%  |
| 2002  | 55%  | 50%   | 50%  |
| 2003  | 55%  | 49%   | 49%  |
| 2004  | 55%  | 48%   | 48%  |
| 2005  | 55%  | 47%   | 47%  |
| 2006  | 55%  | 46%   | 46%  |
| 2007  | 55%  | 45%   | 45%  |
| 2008  | 55%  | 45%   | 45%  |
| 2009  | 55%  | 45%   | 45%  |
| 2010  | 55%  | 0%  | * 35%  |
| 2011 &<br>Following   | 55%  | 55%   | * Gift tax rates<br>will be the<br>highest income<br>tax rates |

- **Basis.** For the year 2010 [reverting back to current law in 2011], the unlimited step-up (or step-down) in basis of property acquired from a decedent is reduced to the lesser of decedent's adjusted basis or fair market value at date of death. For all estates, the basis may be increased by up to \$1.3 million. In addition, the \$1.3 million may be increased by unused built-in losses and loss carryovers. Property acquired by a surviving spouse will be entitled to an additional basis increase of up to \$3 million.
- The **State Death Tax Credit** is reduced by 1/4 in 2002, by 1/2 in 2003, by 3/4 in 2005, and repealed and replaced by an estate tax deduction in 2005. This federal credit is now paid to California as a "pick-up" state estate tax; we can anticipate that California will enact new legislation to provide for a new form of estate tax, or return to the form of inheritance tax we had before 1982.
- The **generation skipping transfer tax (GSTT) exemption** will be automatically allocated to transfers made during a person's life which are indirect skips, unless a person elects not to have the automatic allocation rules apply by timely filing a gift tax return for the calendar year in which the transfer was made.
- A **trust can be severed for GSTT purposes** in a qualified severance. A qualified severance is the division of a single trust and the creation of two or more trusts if (1) the single trust was divided on a fractional basis, and (2) the terms of the new trusts, in the aggregate, provide for the same succession of interests of beneficiaries as are provided in the original trust. This makes the allocation of the GSTT exemption much easier by being able to sever trusts in order to avoid the possible incurrence of the GSTT on all assets held in a trust.
- The **repeal of the estate tax and GSTT, but not the gift tax**, means that generation-skipping transfers during a person's lifetime will still be subject to gift tax after 2009, but will not be subject to any additional generation-skipping transfer tax. Like the estate tax, however, the GSTT

will return in 2011 unless Congress agrees to reenact the bill (or makes other modifications).

- Effective for decedents dying after 2000, **Qualified Conservation Easements** will no longer be restricted to and located within 25 miles of a metropolitan area or national park or wilderness area, or within 10 miles of an Urban National Forest – they may now apply to any land that is located in the United States or its possessions. In addition, the bill provides that the date for determining conservation easement compliance is the date on which the donation is made. (This will be effective through 2010, until we return to current law in 2011.)
- The **Family Owned Business Exclusion** (adopted in the 1997 Tax Act; now IRC §2057) is eliminated in the estates of persons dying on and after January 1, 2004 (but reinstated in 2011).
- For estates of decedents dying in 2001 through 2010, the **estate tax installment payments** for farms and businesses under IRC §6166 now increase the allowable number of owners (partners, shareholders) from 15 to 45. There are also new provisions for estates of decedents dying in 2001 to apply the installment provisions to certain financial and lending businesses (including making loans, purchasing or discounting of notes, and renting and leasing of real and personal property).