

January 2009

Dear Client:

Again this year, the trust and estate front remained much quieter than the individuals and businesses. Here are the few items that may have some effect, directly or indirectly, on trusts and estates for 2008.

- **10% Tax Bracket:** Unlike individuals, trust and estates do NOT benefit from a 10% bracket. The lowest tax rate starts at 15%.
- **General Tax Rates:** The reduction in tax rates had been extended to trusts and estates. However, please keep in mind that the top rate of 35% (federal) is effective for taxable incomes in excess of \$10,700, which is much less favorable than the individual tax brackets.
- **Capital Gains and Dividends:** The maximum tax rate for long-term capital gains and qualifying dividends remains at 15% (5% for trusts and estates in the 15% bracket).
- **Gift Tax Exclusion:** \$13,000 annually per donee; married couples can each give up to \$13,000, without triggering reporting requirements. However, split gifts would necessitate the filing of a Gift Tax Return.
- **Estate Taxes:** The applicable exclusion amount for estate tax purposes is \$3,500,000 in 2009 (it was \$2,000,000 in 2008). The top tax rate is 45%. Please note that the lifetime gift tax exemption remains capped at \$1,000,000.

Our standard engagement letter is enclosed along with our checklist. Please answer the questions in italics on the checklist, sign the blue letter, and return both to us. We cannot begin your tax returns until we have received the signed engagement letter.

We encourage you to meet with us or bring in your tax data as early as is reasonable - but please do your best to have complete information. We try to prepare returns on a first-come, first-served basis once we have all the data needed - but cannot avoid putting returns on extension if much is still missing by the 15th of March.

A reminder - The fiduciary is responsible for the proper recording of transactions in the books of accounts, *including allocations between income and principal*, for the safeguarding of assets, and for the substantial accuracy of the financial records. If you are the fiduciary of a trust that is required by the trust document to distribute the annual income of the trust, it is important that this be done every year.

Finally, please remember: careful planning and strict adherence to the terms of a trust are most important. Significant negative tax consequences may be the result if trusts are treated lightly and an unwitting tax transgression occurs.

We look forward to working with you, and please call if there are any questions. You may also communicate with us at www.herrickltd.com.

Sincerely,

Herrick, Ltd. CPAs