

# HERRICK, LTD. Certified Public Accountants

January 2015

Dear Trustee or Executor:

In 2014, the federal estate and gift tax exclusion is \$5,340,000, indexed for inflation. Many states, including Vermont, have a state-level estate tax. Vermont's estate tax exemption currently is only \$2,750,000.

**Federal Estate Taxes:** The top tax rate is 40%. The indexed federal estate tax exemption is \$5,430,000 for 2015. Portability of the federal estate tax exemption between married couples has become permanent, but requires the timely filing of an Estate Tax Return for the first spouse who passes away.

**Dividends and Capital Gains:** For tax year 2014, the maximum tax rate for qualifying dividends and long-term capital gains is 20%. This rate applies to the amount of capital gains and qualified dividends in excess of \$12,150 for trusts with taxable income that is *not* distributed.

**General Tax Rates:** For 2014, the top income tax bracket for estates and trust is 39.6%. Additionally, the new 3.8% tax on investment income applies to trusts with annual undistributed investment income over \$12,150. The Net Investment Income Tax (NIIT) imposes a 3.8% tax on the lesser of an estate's or trust's net investment income or the excess of the estate's or trust's adjusted gross income over a specified threshold. For 2015, this threshold is \$12,300. Trustees should consider this when deciding whether to distribute current income to trust beneficiaries that have higher thresholds instead of triggering the 3.8% tax.

**Reminder to Fiduciaries:** 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. 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.

Our standard engagement letter is enclosed along with our checklist. Please answer the questions on the checklist, sign the 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 we cannot avoid putting returns on extension if much is still missing by the 15<sup>th</sup> of March.

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](http://www.herrickltd.com).

Sincerely,

Herrick, Ltd. CPAs