Life Planning Newsletter
The Law Offices of James A. Busse Jr.
Long Beach CA, Carson City NV.
April 2007

Our law firm focuses on Estate and Life Planning for those who wish to preserve their assets for their family. By doing Probate work for our clients we have established Estate Planning methods that are court tested. Because the goal of every person is to have peace of mind their wishes will be carried out, our integrated approach constantly tests the effectiveness of your Estate Plan with actual California and Nevada Cases. We are particularly involved in Medicaid and Medi-Cal Estate planning. We create Special Needs Trusts and Estate Plans to ensure our clients meet the eligibility requirements, lower their share the cost expense, and reduce or eliminate the potential recovery by the State.

Our law firm integrates low cost Probate with coordinated Estate Planning documents to significantly reduce the impact of the State claim for nursing home care.

This newsletter is provided to our clients free of charge via e-mail and on line at www.jabusse,com

2007 Congress Signals Punitive Estate Tax Plan.

Currently, we enjoy the most liberal application of Estate and Gift since1934. Now with the election of the current congress and their most recent budget proposal and rejection of certain amendments, the Estate Tax is scheduled to return with a vengeance in 2011. The exclusion is scheduled to be returned to $1 million and the starting tax over that will be 55%.
The current Estate tax, enacted in 1916, was implemented as part of the Progressive Wilson administration as a punitive measure against the wealthiest Americans such as the Ford's, Rockefeller's, and the DuPont's, etc. It set a top rate of 10 percent on estates over $5 million (less than 1000 Americans). It was raised to 25 percent in 1917, but this rate applied only to estates over $10 million (fewer than 400 Americans). Unlike its predecessors, it was not repealed. The top rate was dropped to 20 percent in 1926.
In 1934, as part of the "New Deal," President Franklin Roosevelt raised the top rate to 60 percent then to 70 percent in 1935. All together the change raised just $250 million annually. As you can see, not many Americans made enough or had enough to worry about these taxes. With inflation and the tremendous size increase of our federal government, we all must now worry about taxes, especially Estate and Gift Tax.
Today, the estate tax goes up to 60 percent on Estates in excess of $2 million. since its revenue yield is negligible only accounting for $16 billion in a budget of $2.9 trillion. (the equivalent two quarters in a stack of 400). It exists only to punish imitative, create ill-will, and redistribute the wealth accumulated over a lifetime from those who own property or businesses to those who do not.
The Estate tax in the United States is higher than in all other countries where estates may be accumulated, included communist China.
Clearly, the recent election of progressives to congress, if not reversed in the next two years, will cost anyone who does not do a good estate plan a pretty penny. To give you an idea of how much, take a "typical" two million dollar estate consisting of some insurance, a house, maybe a condo or rental, some cash, a few stocks and an IRA or 401(k). This year the Estate would owe no Estate tax. In 2011 the progressive congress would have you pay $610,000. The press tends to talk about the income tax changes. But, for most of us who have worked for some time and have bought property, and saved some, the

biggest impact will be to our estate. Of course, laws change. It is always a good idea to keep updated on estate tax developments.
This newsletter will publish the major Estate tax developments annually.

Retroactive IRA Catch-up for American Military
Wages earned in a combat zone can be used to determine eligibility for contributing to a regular or Roth IRA, even though those wages are not subject to federal income tax. This new law is retroactive to taxable years after 2003. So if a person was deployed in a combat zone in 2004 or 2005 and couldn't contribute to an IRA under the old rules; they now have that opportunity.
In 2004, the maximum IRA contribution allowed was $3,000; or $3,500 for those 50 and older. In 2005, the maximum was $4,000, or $4,500 for those 50 and older and $5,000. In 2006 or $5,500 for those 50 and older.
Even though you have filed your taxes for those years, you can file an amended return (Form 1040X) and make your IRA contribution. If you made a partial contribution in those years, you can make a contribution up to the maximum amount for both you and your spouse.
Note that if your spouse had salary and/or self-employment income in 2004 - 2006, you were eligible in those years to make an IRA contribution even though your pay earned in the combat zone was not taxed.
Here are a few examples:
Example No. 1. Spc. Brad Jones was deployed to Iraq for all of 2004. His wife, Carrie, had a salary of $14,000. Under the old law, each could contribute up to $3,000 to an IRA.
In this example, Carrie contributed $3,000 to her IRA and Jones contributed $1,000 to his IRA. Now, he can go back and contribute another $2,000 to his IRA for 2004. This extra contribution can be made any time before May 29, 2009, giving him almost three years. He will need to file an amended return for 2004.
Example No. 2. Sgt. Johnson is a single mother who was stationed in Afghanistan for all of 2004. She did have taxable income in 2004. Right before she deployed, Johnson bought a lottery ticket. The ticket was a winner and paid $50,000 in 2004, which she put in a savings account for her retirement and her daughter's college education. All lottery payments are taxable income, so Johnson had a large tax bill. She is a resident of Texas, which does not have a state income tax, but her federal tax bill was $3,991.
With the rule change, Johnson can make the maximum regular IRA contribution of $3,000 for the 2004 tax year, which will reduce the tax she has paid by $450.
Example No. 3. Cpl. Jackson is single and was stationed in Afghanistan for all of 2004. He makes a Roth IRA contribution each year and saves additional money in a mutual fund. He bought a rental property in 2003, which pays him taxable income of $1,000 per month.
Although Jackson's combat pay in not taxable, he has $12,000 in rental income and $2,500 in taxable dividends from his mutual fund, for a total income of $14,500. His taxable income after subtracting the standard deduction and personal exemption was $6,550, and his total tax bill was $558.
Since he recently made a contribution of $3,000 to his Roth IRA account for 2004, he can take advantage of the retirement savings contribution credit when he files his amended return.
His adjusted gross income is less than $15,000, so he will receive a tax credit of 50 percent of the first $2,000 contributed to an eligible retirement plan. His Roth IRA is eligible for the credit, as are the Thrift Savings Plan, regular IRAs and other retirement plans. Because he is eligible for a $1,000 maximum credit, and his tax bill before the Roth contribution was $558, he will be refunded the entire tax amount he paid in 2004.
To sum up, if you could not make an IRA contribution for 2004-2006 because your combat pay was not treated as eligible income for an IRA contribution, you can retroactively make a regular or Roth IRA contribution for those years.

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