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Tax Alert: What You Need to Know About Changes in Federal and State Tax Laws

In this Issue

The Importance of Maintaining Current Beneficiary Designations

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Estate and Gift Taxes

As of January 1, 2009, the federal estate tax exemption is now \$3.5 million per person, or \$7 million per couple if a proper estate plan is in place. The Maryland exemption remains \$1 million, as it has been since the federal exemption began to rise. The federal generation-skipping transfer tax exemption has also increased to \$3.5 million.

Taxpayers can now give up to \$13,000 per year to any one individual (\$26,000 if a couple makes the gift) without any gift tax implications. The lifetime gift tax exemption (for amount gifted in excess of the annual exclusion) did not increase and remains at \$1 million. Provided that gifts to any one person in a given year do not exceed the annual exclusion of \$13,000, the lifetime exemption is not affected.

The difference in the federal and Maryland exemptions can cause headaches after your death if you are married and your estate plan is not up to date. Maryland estate tax may be inadvertently paid at the death of the first spouse to die because the formula used to fund the "bypass" or "credit shelter" trust was drafted when the federal and Maryland exemptions were in sync. The disparity between the exemptions now may trigger Maryland tax because the trust will be funded with the higher federal amount. If your estate plan has not been reviewed in the past several years, you should consult with your advisor to determine whether any changes are needed to avoid the Maryland tax.

Retirement Plans

Taxpayers over the age of 70½ are required to take a "Required Minimum Distribution" (RMD), from their IRAs and other retirements accounts each year. Due to the recent stock market downturn, Congress decided to give retirees a break and to suspend the RMD rules for the year 2009 so that a distribution is not required for 2009. The RMD suspension is temporary, and applies for 2009 only. As of 2010 the RMD will again be required.

Maryland Income Tax

The General Assembly has declared a tax amnesty program, in which penalties and one-half of the interest due on delinquent tax returns will be waived if the late returns are filed between September 1 and October 31, 2009. The program applies to individual and corporate income taxes, withholding tax, sales and amusement taxes that have accrued prior to December 31, 2008.

Federal Income Tax

President Obama recently signed the American Recovery and Investment Act of 2009, also known as the "stimulus bill." The Act contains many provisions targeted at businesses, in order to stimulate spending, and also some provisions that will be helpful to individuals. Among its provisions for individuals are:

- protection against an increase in the alternative minimum tax;
- a "making work pay" credit for low and middle income taxpayers;
- expansion of the credit for college tuition expenses;
- a new deduction for purchase of a new car; and
- extension of the credit for purchase of a first home.

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