

PODCAST
PRESENTATION

BE KNOWLEDGEABLE AND NIMBLE: YEAR-
END TAX PLANNING, 2009

Host: I'm here today with Grace Allison, Tax Strategist for the Personal Financial Services division at Northern Trust. I'm Laura Jacobs and I'll be your host today.

Prior to joining Northern Trust, Grace practiced law as a partner with the Chicago office of Katten Muchin & Zavis. She is a graduate of The University of Chicago Law School and Wellesley College and is on the Board of the Chicago Council on Planned Giving.

Today's program will be an informative discussion that should be of interest to affluent individuals thinking about year-end tax planning. As always, you should contact your attorney or tax advisor to determine whether the strategies we discuss will work in your own specific situation.

Grace, thanks for joining us.


Grace: My pleasure. Thanks for having me.

Host: Grace, uncertainty about future rates and exemptions would seem to be a major obstacle for anyone attempting year-end tax planning in 2009. What can you suggest?

Grace: That's a great way to begin our discussion. One strategy is to consider some likely legislative outcomes and effective dates.

For example, although legislation has been introduced into Congress that would increase income





tax rates for upper bracket taxpayers to 36 percent and 39.6 percent, none of the pending bills are expected to take effect before 2011.

The relevant players seem unwilling to disturb the nascent economic recovery by raising income taxes in 2010.

When we move to 2011, one proposal that catches our attention is to increase the maximum long-term capital gains rates to 20 percent for those in the 36 percent and 39 percent brackets. If you and your advisors agree that a significant increase in capital gains rates is likely in 2011, you may want to consider recognizing substantial long-term gains in 2009 and 2010.

A related strategy to consider: continue to harvest losses this year and next—and plan to offset recognized gains with current capital losses as well as capital loss carry-forwards. If you contemplate substantial charitable deductions—or have excess charitable contribution carry-forwards—these also would be available to offset increased long-term capital gains.

Host: Any thoughts about transfer tax planning? I've read that the current \$3.5 million exemption and 45% rate for the estate and generation-skipping taxes are set to expire at the end of 2009. Is this a good time to talk with your advisors about your wealth transfer plan?

Grace: Many observers think that Congress will, at a minimum, act before year-end to extend the current 45% rate and \$3.5 million exemption through 2010. There may well be additional changes in 2011. If you haven't talked with your advisors about your wealth transfer plan for three years or more—or if you have recently experienced a significant life event such as marriage, divorce or the death of a loved one—delay is not your friend. Act to update your plan now—and stay alert for future tax law changes.

Host: How about year-end giving in 2009?

Grace: If you have assets that are currently depressed in value, such as closely held stock, think about leveraging your \$13,000 annual gift tax exemption (\$26,000 for a married couple) by gifting property instead of cash. Any future appreciation in the asset will be out of your estate—and you will have begun to transfer significant ownership to the next generation. One special caution for entrepreneurs: be sure whatever transfers you make of company stock are part of a fully integrated business succession plan. Once again, talking the issues through with skilled advisors is key.

Another type of wealth transfer opportunity is brought to us by current low interest-rates. If you want to pass wealth to the next generation at minimal transfer tax cost, now is the time to consider funding a grantor retained annuity trust or charitable lead annuity trust. Both of these vehicles can work well if funded with assets that appreciate at a rate greater than the applicable federal discount rate, which is currently 3.2 percent for the months of November and December. With a grantor retained annuity trust, the grantor receives payments during the term of the trust, which is typically no more than ten years. With a charitable lead trust, cash flows during the trust term to charity—either a public charity or your own private foundation. At the end of the term, both types of trusts distribute to family members. Best of all, any appreciation in asset value in excess of the federal discount rate passes tax-free to the next generation.

Host: You mentioned earlier that income tax rates for high income taxpayers may rise in 2011. What strategies are appropriate in such an environment?


Grace: That's a great question. If you are years away from retirement, or are closer to retirement but anticipate taking only required minimum distributions once you retire, you may want to explore maximizing contributions to your retirement plans this year. In 2009, employees younger than 50 can contribute as much as \$16,500 to a 401(k) plan; those who are 50 or older by the end of 2009 can contribute an additional \$5,500. The longer assets remain in your plan, the greater the potential for tax-deferred earnings. In addition, the impact of potentially higher future tax rates is reduced because withdrawals will be made (and taxes paid) over many years.

For those concerned with funding college and graduate school for children, grandchildren, nieces or nephews, don't forget state-sponsored Section 529 plans, where after-tax contributions grow tax-free and remain untaxed if used for qualified educational purposes such as tuition, room and board, and for 2009 and 2010 only, computer technology and equipment.

A third type of tax-advantaged vehicle is the tax-advantaged charitable remainder trust, which works to defer capital gains while providing cash flow to you or your designated beneficiaries and a remainder interest to your favorite charity.

Host: Clearly, there's lots of think about when it comes to tax planning! Any final thoughts you can share with us?

Grace: Many of you may be aware that, beginning in 2010, taxpayers with modified adjusted gross income in excess of \$100,000 can convert a Traditional IRA to a Roth IRA. Conversion triggers income tax on deferred IRA earnings so the big question is what factors to consider before pulling the conversion trigger. Life expectancy, the need to take subsequent withdrawals from the Roth, availability of non-IRA funds with which to pay the conversion tax, assumed rate of investment return and anticipated



income tax rates all enter into the mix. The safest course is to have your tax adviser or financial consultant run projections—and be sure you understand the assumptions on which the projections are based.

Host: Thank you, Grace, for sharing with us some important planning considerations.

Grace: My pleasure.

Host: For more information about year-end tax planning, please visit us online at northerntrust.com/taxcenter. As always, we invite you to speak with your Relationship Manager about how Northern Trust can work with you and your other advisors to achieve your wealth management objectives.

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