

COHEN & BURNETT, PC AND LEGACY ANALYTICS, LLC

Meet Our Staffs

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DON'T BUY HIGH AND SELL LOW!

Financial Research Corporation recently released a report (www.frcnet.com) that illustrates perfectly the adage that investors too often buy high and sell low. The study found that, between January 1990 and March 2000, the peak of most market indices, the average mutual fund's three-year return was 10.92% while the average investor in those same funds gained only 8.7% during the same period. The study shows the main reason for the lost ground is the investor's propensity for chasing hot sectors. The study found the current average holding period was around 2.9 years for a typical investor, which is significantly shorter than the 5.5-year holding period just five years ago.

Many investors are purchasing funds based on past performance, usually when

the fund is at or near its peak. For example, \$91 billion in new cash flowed into funds just after they experienced their best performing quarter. In contrast, only \$6.5 billion in new money poured into funds after their worst performing quarter. In 42 of the 48 categories that Morningstar follows, net inflows were higher after that category's best performing quarter. In short, investors are chasing the "hot dot."

Individual investors without professional advice consistently have higher redemption rates and shorter holding periods than those investors getting help from a financial adviser. Meanwhile, investors using advisers are more likely to stay with their asset allocation strategies and invest for the long haul.

DYNASTY TRUST-THE TRUST THAT KEEPS GIVING

Under Virginia law, you have the choice of creating a multi-generational trust to enable you to preserve your fortunes for your children, grandchildren and other family members while creating significant income-, gift-, and estate-tax savings. This type of trust is designed for wealthy individuals who want to establish a truly perpetual, tax-favored source of income and capital for future generations. The trusts can be set up so that assets are free from claims of trust beneficiaries' creditors or ex-spouses, or lawsuits against trust benefi-

aries. Because assets placed in trust are no longer in the donor's estate, they are not subject to estate taxes. To maximize tax savings, dynasty trusts are typically funded during the donor's lifetime by gifts up to the maximum exemption for the generation skipping transfer (GST) tax (\$1.1M this year, rising to \$1.5M in 2004 and \$2M in 2006). Any appreciation of these assets after the gift no longer is part of the donor's estate. *Continued on page 3.*

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**From "Pass It On"
Wall Street Journal,
Mar. 25, 2001, page R5**

The cited Wall Street Journal has ten great questions each of you should ask as part of your estate planning. The first one is the one we encounter most frequently which is: "Should I talk to my children about their inheritance?"

The easy answer is yes. Some chose not to do that as they perceive that their children, upon learning what they stand to inherit, will become lazy or gripe over the division. Discussing your plans in advance with each child is useful, though, to gauge their reactions or get it out of their system while you are alive. More than once we have revised documents to arrange matters differently after the parent learned of a adult child's reaction to their estate planning documents. A good rule is to never mislead the children by promising too much or too little only for them to find out when you are gone that your word and deeds did not match up.

For your information, the other nine questions discussed in the article include: If my parents don't bring up their plan about inheritance, should I ask them about it? Should I give each child an equal pie? What if I have a blended family? Am I pulling the reins too tight? Should I include my grandchildren in my inheritance plan? Should I give my heirs part of their inheritance before I die? Who's going to manage all this when I'm gone? Should I give something other than money? Should I leave everything to my family? If you want to discuss these issues, the article states you can join a discussion in the Online Journal at WSJ.com/JournalLinks.

THE NEW TAX ACT BY YEAR

2001:

- The Treasury sends rebate checks based upon a new 10% rate
- The Alternative Minimum Tax (AMT) exemption increases
- The top four tax rates reduced by ½ percent

2002:

- The top four tax rates are reduced by a further ½ percent
- The estate tax exemption increased to \$1,000,000
- The top estate tax rate is reduced to 50%
- Contributions to an IRA, SIMPLE, and 401(k), 403(b), and 457 are increased to \$3,000, \$7,000, and \$11,000, respectively
- An extra \$500, \$500, and \$1,000 contribution can be made by age 50 taxpayers to an IRA, SIMPLE and certain qualified employer plans

2003:

- The top estate tax rate is reduced to 49%

2004:

- The last year of AMT tax relief
- The estate tax exemption increases to \$1,500,000
- The top estate tax rate is reduced to 48%

2005:

- The marriage penalty relief phase-in begins
- The child tax credit increases to \$700
- The top estate tax rate is reduced to 47%

2006:

- All income tax rate reductions are fully phased-in
- The 401(k) ROTH begins
- Annual contribution limits on 401(k), 403(b), and 457 plans fully phase-in at \$15,000 (\$20,000 for those 50 and older)
- The estate tax exemption increases to \$2,000,000
- The top estate tax rate reduces to 46%
- 1/3 of disallowed personal exemptions and deductions are restored for higher income filers

2007:

- The top estate tax rate is reduced to 45%

2008:

- Another 1/3 of disallowed personal exemptions and deductions are restored for higher-income filers.
- The marriage penalty phase-out is complete
- The IRA contribution limit increases to \$5,000 and \$6,000 for under 50 and 50 and over, respectively
- The 10% bracket is increased to \$14,000 for joint filers and \$7,000 for single filers

2009:

- The child tax credit increases to \$800
- The estate tax exemption increases to \$3,500,000

2010:

- The child tax credit increases to \$1000
- The phase-out of personal exemptions and itemized deductions is complete
- The estate tax is repealed

2011:

- **All changes disappear and revert back to the 2001 law**

SIMPLIFIED RULES ON RETIREMENT-PLAN PAYOUTS

By the Numbers

Most IRA owners will use this chart to figure out their annual required minimum distributions each year, starting at age 70 1/2. To arrive at the required distribution, divide the total money in the account by the figures next to the appropriate age. The higher the divisor, the lower the withdrawal. IRA owners with spouses more than 10 years younger must use a different table.

Uniform-distribution life-expectancy table

Age	Divide account total by	Age	Divide account total by	Age	Divide account total by	Age	Divide account total by
70	26.2	82	16	94	8.3	106	3.8
71	25.3	83	15.3	95	7.8	107	3.6
72	24.4	84	14.5	96	7.3	108	3.3
73	23.5	85	13.8	97	6.9	109	3.1
74	22.7	86	13.1	98	6.5	110	2.8
75	21.8	87	12.4	99	6.1	111	2.6
76	20.9	88	11.8	100	5.7	112	2.4
77	20.1	89	11.1	101	5.3	113	2.2
78	19.2	90	10.5	102	5	114	2
79	18.4	91	9.9	103	4.7	115+	1.8
80	17.6	92	9.4	104	4.4		
81	16.8	93	8.8	105	4.1		

Great Quotes

Q: How many lawyers does it take to change a lightbulb? A: How many can you afford?

Dynasty Trust Continued. One powerful strategy clients can use to leverage their GST exemption is to direct the dynasty trust to buy second-to-die life insurance for the trust creators. At the death of the surviving parent, the insurance policy proceeds will be paid to the trust where they can grow free of estate and transfer taxes. If you desire to explore the use of a dynasty trust, please call and make an appointment to discuss the matter with I. Mark Cohen or Weston D. Burnett.

Great Courtroom Moments

“Your Honor,” said the jury foreman solemnly, “we find that the man who stole the \$20,000 is not guilty.”

BASIC ESTATE PLANNING SEMINARS

We, at Cohen & Burnett, continue to offer our basic estate planning seminars to educate people about the myths and facts of estate planning. If you would like to attend one of our basic estate planning seminars as a refresher, or if you know of anyone else who may be interested in attending a seminar of this nature, please let us know and we will be happy to reserve space(s).

Thursday, May 2, 2002

Thursday, June 13, 2002

Thursday, July 11, 2002

Thursday, August 8, 2002

ADVANCED ESTATE PLANNING SEMINARS

We also offer our existing clients and their guests advanced estate planning seminars as part of our commitment to keep up with advanced techniques for taking care of your beneficiaries and minimizing estate and related costs. AEP Seminars are an interactive, in-depth exploration of sophisticated estate planning tools for affluent clients interested in discussing, for example, family limited partnerships, life insurance trusts, charitable remainder trusts, and Section 529 College Savings Plans.

Thursday, April 18, 2002

Thursday, May 16, 2002

Thursday, June 27, 2002

Thursday, July 25, 2002

Our seminars take place from 12:00 p.m. to 2:30 p.m. and are conducted in our conference facilities, at our McLean office, with a buffet-style catered lunch. To make a reservation, please call our office at (703) 847-8900.

STATE ESTATE TAX

As the Washington Post reported in an article recently, the states are not readily accepting the estimated \$6.5 billion in annual revenue losses that accompany the reductions to the federal estate tax over the next ten years and the progressive elimination of the credit for estate tax payments to the states through 2005. The estate tax is a major source of revenue providing \$130 million for Virginia, \$80 million for Maryland and \$50 million for the District of Columbia. That provides a substantial incentive for the states to maintain that revenue source. On the other hand, proponents of the repeal are predicting that states that follow the federal lead and repeal their estate tax will see an influx of wealthy senior citizens eager to avoid the tax. All of these arguments beg the question whether the federal estate repeal presently projected for one year, 2010, will itself be repealed by a later Congress and administration or become permanent law, again by act of a later Congress and administration.

DISTRIBUTION OF ESTATE TAX LIABILITY (2000 INCOME LEVELS)

Income Category	Percent of Income	% of Estate and Gift Tax Liability
Bottom (Fifth) Quintile	2.7	0
Second Quintile	7.2	0
Third Quintile	12.6	0
Fourth Quintile	21.3	0.8
Top Quintile	56.7	99.2
Total	100	100
Top 10 percent	40.5	96.2
Top 5 percent	29.4	91
Top 1 percent	14.8	64.2

Source: Department of Treasury, Office of Tax Analysis, July 21, 1999 (unpublished release).

Note: Treasury's tables are based on "family economic income," a broad-based income concept developed by the Treasury Department and used since the 1980's. Treasury has experimented with alternative income measures: the qualitative conclusions generally do not depend on the income measure.