

# Client Alert

A report  
for clients  
and friends  
of the firm August 2006

## Estate Planning Aspects of the Pension Protection Act of 2006

On August 17, 2006, President Bush signed into law the Pension Protection Act of 2006 (the "Act"). While the Act will have a far-reaching impact on pension plans, it also contains various provisions that will be of interest to wealth management advisors. This Client Alert briefly identifies some of these significant changes in the law. Proskauer intends to publish a Personal Planning Newsletter in September discussing the full impact of these changes.

The Act makes permanent a range of 529 college savings plan features that were scheduled to expire in 2010. The most important of these is retaining the tax-free status of distributions from these plans when paying college expenses. Thus, investments in 529 plans will continue to grow tax-free, and also not be subject to income tax when withdrawn to pay for college expenses.

In 2006 and 2007 only, an individual age 70 ½ or older can make charitable lifetime gifts directly from an IRA, up to a maximum of \$100,000 per year. These distributions will not be reported as income by the IRA owner, and therefore will not give rise to an income tax deduction. The funds are required to be distributed directly from the IRA to a public charity or a conduit private foundation described in section 170(b)(1)(A); however, donor-advised funds and supporting organizations are not eligible. Additionally, these distributions to charity will count towards the IRA owner's minimum required distribution for that calendar year.

A non-spouse beneficiary of a deceased employee who participated in a company retirement plan, may now make a direct Trustee-to-Trustee transfer to an inherited IRA. This will allow for a payout over the beneficiary's life expectancy that may not have been allowed under the rules of the company's retirement plan. This provision is effective for distributions from retirement plans after December 31, 2006.

The Act also makes changes with respect to the donation of certain types of property to charities. No charitable deduction is allowed for used clothing and household

items unless those items are in good used condition or better. Additionally, new rules govern the donation of fractional interests in tangible personal property, such as art, that require the donee to take full possession of the property within 10 years or the death of the donor, whichever occurs first.

This Client Alert provides only a brief summary of the changes in the Act of interest to wealth advisors. As noted above, Proskauer will be publishing a Personal Planning Newsletter providing a more comprehensive analysis of the above provisions and how they affect your clients.

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