

We provide sound and practical legal advice for the challenges confronting our clients. Our depth of practice and breadth of experience provide our clients with a wide range of high-quality legal representation. We are committed to delivering an excellent work product to our clients.

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### WHAT'S NEW

Gregory W. Carter joined our firm in January. Greg concentrates his practice in family law. He works closely with Jennifer J. Gray, who leads our family law department. Greg received a Bachelor of Arts degree in 1999 from the University of California, Santa Cruz, and his law degree from Monterey College of Law in 2005. He is currently chair of the Santa Cruz Economic Development Council and serves as a Director on the Board of the Santa Cruz Chamber of Commerce.

Steven D. Penrose joined our firm in June. Steve has over 28 years of experience in estate planning, probate and trust law, estate and trust litigation, and real estate law. Prior to joining Bosso Williams, he practiced law in the Salinas/Monterey area.

Steve is certified by the State Bar of California Board of Legal Specialization as an Estate Planning, Trust and Probate Law Specialist. He works with Peter L. Sanford and Michelle E. Anderson in our estate planning department. Steve received a Bachelor of Arts degree in 1976 from Santa Clara University and his law degree from McGeorge School of Law in 1979. He served as Chairman of the Planned Giving Committee, National Steinbeck Center and serves as a Director on the Board of Friends of Long Marine Lab.

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## WHAT'S NEW

We are proud to announce that Edward L. Chun became a shareholder in the firm, effective in January 2007. He is a civil litigation attorney who represents individuals and businesses in various types of litigation such as disputes involving contracts, landlord-tenant, business and partnerships, and real property. Ed has extensive experience representing clients in jury and court trials and in alternative dispute resolution proceedings including mediation and arbitration.

Ed received his Bachelor of Arts degree from the State University of New York at Stony Brook in 1983 and his law degree from Brooklyn Law School in 1986. Ed is actively involved in youth sports. He coaches baseball, flag football and soccer. He is currently the Vice President of the Santa Cruz Little League.

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## THE CURRENT STATE OF THE FEDERAL ESTATE AND GIFT TAX

In 2000 Congress passed tax legislation that changed the estate and gift tax law in ways that dramatically affect your estate and tax planning. It technically repealed the federal "death tax," provided a decade-long phase-in period for increased estate tax exemptions, several changes to current rules in the interim, and a "carryover basis" provision that is sure to cause confusion and potentially unpleasant income tax consequences to the beneficiaries of many estates if Congress does not act again, and soon.

Here are a few key points to keep in mind.

- The supposed repeal of the death tax in 2010 applies to the federal estate and generation-skipping taxes. It does not repeal the federal gift tax;

- Death tax repeal, if it does in fact occur, may eliminate the income tax savings achieved through a "step up" in the basis of property received from a decedent. As a result, families may not be able to take advantage of the potential benefits of "death tax repeal" without careful planning.

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### *"Sunset" in 2011*

The changes made by the new law, including the "death tax repeal," will cease to apply after 2010. This highly unusual provision was included to insure technical compliance with the federal budget law. The lawmakers obviously assumed that this provision would be eliminated in future legislation. If not, the "death tax" will be back in 2011, but with a mere \$1 million per person exemption against estate tax. Most commentators believe that Congress will act after the 2008 election to keep the estate tax "alive" and to make permanent, or to possibly increase the \$3.5 million exemption currently scheduled to take effect in 2009. (However, Congress might do nothing and allow the estate tax exemption to revert to \$1 million in 2011, thereby raising needed revenue.)

Changes in the tax law may affect your estate and tax planning. Your attorney can review your estate plan and make any changes that may be needed in light of current tax law.

*By: Steven D. Penrose*

## TAXATION OF CHILDREN'S INCOME

### *Kiddie Tax Age Increased*

Congress has made it harder for parents to reduce their tax bills by transferring income-producing investments to their children. For tax years beginning after May 25, 2007, the "kiddie tax" will apply to children under the age of 19, and full-time students under the age of 24 who earn less than half of the amount needed for their support (Congress raised the kiddie tax age limit from children under 14 to children under 18 in 2006). The kiddie tax applies when a child's unearned income (including interest, dividends and capital gains) exceeds \$1,800.

The child's excess unearned income is taxed at his highest tax rate or his parents' highest tax rate, whichever is greater. This coincides with a reduction in the long-term capital gains rate for the lowest income bracket (from 5% to 0% for single persons earning up to \$32,550). Thus, for parents of an 18-year-old who has begun

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college this year, selling stock with \$20,000 of gain to pay tuition would result in a tax of \$1,000 (\$20,000 @ the child's 5% rate); next year, the tax will be approximately \$3,000 (\$20,000 @ the parents' 15% long-term capital gains rate). Therefore, it may be worthwhile to sell the stock early, and prepay your child's spring tuition. Also, be aware that the kiddie tax does not apply to qualified tuition savings plans, so 529 plans and Coverdell savings ac-

counts can continue to be a good way to save money for college.

### *Put Your Child to Work*

If you have a small business, you may be able to put your child to work and reduce your taxes. By paying your child to work in your business, you can reduce your income, taxed at federal rates as high as 35%, and increase his earned income, which is taxed at only 10% if he earns up to \$16,275, and 15% if he earns up to \$32,550. Even if the child has unearned income that is subject to the kiddie tax, the kiddie tax doesn't apply to wages or salary earned by your child. If you operate your business as a sole proprietorship, partnership or limited liability company, you'll also save an additional 15.3% on the amount you pay your child, because you will not have to pay self-employment tax on that amount. You may even be able to add your child onto the company's retirement plan, permitting substantial tax-deferred growth for your child. Keep in mind that you will likely have to do income tax withholding for your child for each paycheck, although he will likely get most, if not all, of the withheld taxes refunded to him. Also, be aware that child labor laws still apply when you employ your kids.

*By: Christopher C. Kirk*

## IS 2007 A "RETRAIN" YEAR FOR YOUR COMPANY?

AB1825 requires employers who do business in California, and who have more than 50 employees, to provide all supervisors with training on how to prevent sexual harassment in the workplace. The first training deadline was December 31, 2005. Sexual harassment training must also be repeated every two years, making 2007 a "retrain" year for most organizations.

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**TO OUR CLIENTS  
AND FRIENDS,  
OUR HEARTFELT  
THANKS AND  
WARMEST WISHES  
FOR A HAPPY  
HOLIDAY SEASON**



### Important Information: Change in Notary Law

Many types of documents require your signature to be notarized, including real estate deeds, certain agreements regarding real property, estate planning documents, powers of attorney, affidavits, forms from financial institutions, and other documents. The law has changed for notarizations, and now **all notarizations will require formal photo identification, without exception, and cannot be done based on personal knowledge.** Formal identification includes a current California driver's license or nondriver's ID card issued by

DMV, a current U.S. passport, and certain other forms of current government-issued photo ID.

For our clients who do not drive, we strongly recommend you obtain a nondriver's ID card from DMV at this time, so you are prepared if you need your signature notarized.

Please call before your appointment to sign documents if you have any questions about the identification needed.

*By: Michelle E. Anderson*