

Dear Friends of Our Firm,

It's critical for parents to begin saving for their children's college education as early as possible. But, to complicate matters, the so-called "kiddie tax" may be eroding some of your savings.

Under the kiddie-tax provision, unearned income that your child receives exceeding an annual threshold (\$1,700 for 2006) may be subject to tax at *your* much higher tax rate, rather than the child's low rate.

Even worse: A new tax law passed earlier this year — the Tax Increase Prevention and Reconciliation Act (TIPRA) — raises the kiddie tax age limit. Now, the kiddie tax affects the earnings of any child who hasn't turned age 18 by year's end. Previously, the kiddie tax applied only to children under age 14.

Thus, you have four more years to worry about the kiddie tax for college-bound children.

Fortunately, you may be able to avoid dire tax consequences by establishing a "minor's trust," also called a Section 5203(c) trust, for the benefit of a child. The child's income is taxed directly to the trust, so the kiddie tax doesn't apply. Also, you can keep the trust going past the child's age of majority in the state where you live, so you don't have to worry about the child accessing — and squandering — the account funds.

Finally, if it's handled properly, a minor's trust can also avoid any gift-tax complications.

We would be glad to discuss the use of a minor's trust or other viable alternatives for your family's situation. Do not hesitate to contact us at (xxx) xxx-xxxx to set up a meeting.

Very truly yours,

Signature]
[Name]
[Title]

P.S. This is an issue that you should not ignore. We can help you devise a tax-advantaged plan that meets your particular needs.

