

Investing in Virginia's Municipal Bond Market ~ Elizabeth D. Swartz, Senior Vice President - Manager of Investment Services

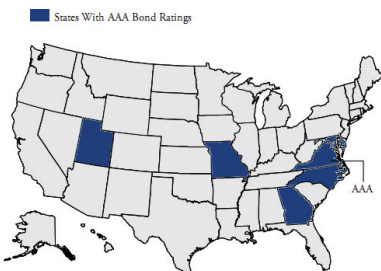
Why Municipal Bonds

The income earned from municipal bonds is tax-free on all federal income taxes regardless of your tax bracket. This is the most significant and unique benefit of municipal bonds. Not even U.S. Treasury Bonds offer income that is free from federal income taxes. In most states, bonds issued by municipalities in that state are free of state income taxes. This means that a Virginia resident can buy any Virginia municipal bond and will not pay Virginia state income tax on the interest income. However, if the same Virginia resident purchased a Texas municipal bond, the income would be tax-free on the federal level, but the Virginia resident would owe state income taxes since it is a bond issued out of state.

The other major benefit of owning municipal bonds is that they can serve as a hedge against future tax increases. For instance, if taxes go up on a federal or state level, the interest income from the municipal bonds will remain constant since it is tax-free. As such, for investors in tax brackets where tax increases are likely, municipal bonds can offer a level of protection.

Why Virginia Municipal Bonds Offer Value

Simply put, Virginia is one of the best municipal bond markets in the country. According to the Joint Legislative Audit and Review Commission (JLARC) the Commonwealth of Virginia municipal bonds hold an AAA rating by Moody's, Standard & Poors and Fitch. Virginia shares this bond rating with six other states, namely Delaware, Georgia, Maryland, Missouri, North Carolina and Utah. As of June 2010, the state had held this rating for the past 71 years. Thus, Virginia bonds are considered to be consistent performers and highly safe.



There are many reasons underlying Virginia's financial strength. Chief among them is our diversified economic base including our proximity to Washington D.C., the military presence, a strong network of higher education institutions, tourism and agricultural base. This produces an income per capita that ranks Virginia seventh highest in the 50 states.



Virginia also had the highest number of AAA rated counties of any state in the nation. One might think that this means there is a high supply of Virginia municipal bonds. Actually, the financial strength of the Commonwealth is robust enough to fund many needs through state and local taxes. In fact, Virginia ranks sixth in the U.S. in supplying state and local needs through personal income taxes alone. When debt is issued through the credit markets, investor demand is exceptionally high.

Virginia provides a unique and diverse issuing base for the municipal bond market. There is no need for the patient investor to lower their portfolio's municipal after tax income and quality by going outside of Virginia.

Our Recommendation

Patience is the key for Virginia municipal bond investing, due to high demand. Also, diligence is required in assessing Virginia credits as some municipalities are stronger than others. ■

Upcoming Events around The Company

- The Richmond Country Club will be the site for our Spring Forum on May 19 where Shawn Majette will give a lunch presentation about current issues in Elder Law. Mr. Majette focuses his practice in the legal aspects of mental and physical disability, with a strong emphasis on the legal, medical, financial, and management issues involved in caring for the incapacitated and the elderly.
- We are returning to Lewis Ginter Botanical Gardens in early June for an evening with Lee Woodruff. When a roadside bomb severely injured her journalist husband, Bob Woodruff, Lee Woodruff discovered how quickly life can change – and what you can learn from surviving a crisis. She and her husband wrote a #1 best selling book about this experience, *In an Instant*.
- Next fall we are planning an evening for our Lynchburg clients and friends at Poplar Forest, Thomas Jefferson's plantation and plantation house in what is now Forest, Virginia, near Lynchburg.
- Ken Farmer of Antiques Roadshow fame is going to conduct an antiques appraisal fair in Williamsburg on October 5. This will be Ken's sixth antiques fair we have hosted at The Trust Company and we expect this one to be every bit as popular as earlier ones. ■

The Two Year Window - Estate Planning Opportunities (and Challenges)

~ Edward F. Parsons

To the surprise of many estate planning professionals, and after much rhetoric and confusion, Congress passed and the President signed in December, 2010, new tax legislation that generally extended the Bush-era tax cuts with substantial enhancements in the estate and gift tax areas. However, the provisions of the new law are not permanent as they expire on December 31, 2012, unless further legislation is forthcoming. This article highlights certain of the tax law changes that are in effect over the next two years with an emphasis on the exemptions that allow for the tax-free transfer of property.

Gift Tax – the gift tax exemption for each donor has increased from \$1,000,000 to \$5,000,000 with a maximum tax rate of 35% for taxable gifts in excess of the exemption amount. This substantial increase could prove useful in making gifts to family members particularly those transfers involving marketable securities, closely held company stock, or other business or real property interests. Gift planning in this regard can result in transferring property out of a client's taxable estate during lifetime especially if the transferred assets are likely to appreciate in value and the property is not otherwise needed. As before, a donor can still make present interest gifts each year to each recipient in amounts up to \$13,000, and the "split-gift election" is still available to husband and wife.

Estate Tax – the estate tax has been reinstated with an exemption amount for each estate also equal to \$5,000,000, with a maximum tax rate of 35% for taxable estates in excess of the available exemption amount after reduction for the amount of gift tax exemption used by the decedent for lifetime taxable gifts. Of further importance is the reinstatement of the "stepped-up basis" rules for income tax purposes whereby the tax basis of assets in a decedent's estate "step-up" to their fair market values as of the date of death or the alternate valuation date, thereby potentially locking in significant lifetime appreciation from capital gain taxes where assets are sold after death. This was not the case last year as a modified "carryover basis" provision was in effect and can still apply to estates of decedents who died in 2010.

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GST Tax – like the other exemptions, the generation skipping transfer tax exemption has increased to \$5,000,000, with a maximum tax rate of 35% for taxable transfers in excess of the available GST exemption amount. For those clients who are considering substantial gifts to grandchildren, either outright or in trust, this enhanced exemption can provide a real planning opportunity for family wealth transfers to successive generations by utilizing the larger tax-free transfer provisions.

Portability of Estate Exemption – for the first time for estates of decedents who die after December 31, 2010, an election can be made on a timely filed estate tax return to allow the decedent's surviving spouse to use not only his or her available gift or estate tax exemption but to add any unused estate tax exemption from the decedent's estate, thus making it "portable". This could potentially result in the surviving spouse having a \$10,000,000 exemption amount for subsequent property transfers. However, the challenge here is whether this provision will remain in the law beyond 2012, and how much utility it will actually have in planning for estates in an uncertain environment.

What's Next – after 2012, if new legislation is not enacted, the above tax exemptions will generally revert to \$1,000,000 with a maximum tax rate of 55% and a surcharge of 5% on larger estates. While we can only speculate as to what future tax legislation may provide, it is clear that a window of opportunity is now available to those clients who are in a position to engage in family wealth transfers or whose heirs may benefit from the new rules.

As a reminder, the material contained in this article is general in nature and is not intended as, nor can it be relied upon as, tax or legal advice. Therefore, please consult with your personal tax and legal advisors to determine how the information presented herein may apply to your individual situation.

Edward F. Parsons, who recently joined the Board of Directors of The Trust Company of Virginia, is a practicing attorney in Richmond, Virginia, representing clients in matters involving closely held business interests, estate planning, estate and trust administration, and commercial real estate ventures. Mr. Parsons is a member of the Estate Planning Advisory Council of the University of Richmond and a past President of the Estate Planning Council of Richmond. ■

Our Wealth Management Banking Program

The Trust Company of Virginia Wealth Management is a premium banking program that was developed and is made available through a partnership between The Trust Company of Virginia and The Bancorp Bank. Designed with your needs in mind, TCVA Wealth Management's offering complements The Trust Company of Virginia's fiduciary and investment services, with the personalized service you've come to associate with The Trust Company of Virginia.

One of the key features of TCVA Wealth Management is the Securities Backed Line of Credit (SBLOC), a competitively priced line of credit backed by the securities in your Trust Company of Virginia portfolio. Painless and fee-free to put in place, the SBLOC functions as an "insurance policy" - granting you immediate access to the power of your portfolio when you need it - without causing tax

consequences, or disrupting an investment plan. Clients have recently relied upon their SBLOCs to fund real estate purchases and business acquisitions, pay taxes, and meet unexpected liquidity needs.

Beyond the SBLOC, TCVA Wealth Management makes available premium checking accounts and a host of other deposit and loan products. From custom tailored benefits like a free debit card with no ATM fees worldwide, online bill payment, or overdraft protection utilizing the SBLOC, TCVA Wealth Management delivers the access and control you and your family need with a new level of convenience.

TCVA Wealth Management's banking services are provided by The Bancorp Bank, a full-service, FDIC insured institution. For more information, speak with your Client Administration Officer, or visit www.tcvawm.com. ■

Enhancements to Portfolio Online

In late June we are launching a greatly enhanced Portfolio Online, making it easier for you to navigate your portfolio information using this web-based system. You will continue to have access to your account information and will be able to view more information than ever before, plus leverage enhanced features to help monitor your account(s) and manage investments. This upgraded Portfolio Online offers new navigation controls that assist in personalizing how you view your account

information through saved PC settings and site design, using filtering controls and expand/collapse features.

We are confident current portfolio online users will be delighted with these improvements and for those of you who have not taken advantage of our online system, now is the time to **Go Green!** Contact your account administrator to be set up immediately.

Key Features This enhancement will provide features and capabilities you have been asking for, including:

- *Single-click to view an individual account or an aggregate of multiple accounts.*
- *A holistic presentation of your total portfolio.*
- *Financial access features including watch list, scrolling tickers, calculators and planners.*
- *Enhanced analytical tools to help value and analyze your portfolio.*
- *Single-click to view a year-to-date summary of account activity with the option to drill down to view the underlying list of transactions.*
- *Activity summary reports providing information relevant in understanding cash flows, trade activity and realized capital gains and losses.*
- *Convenient online access to statements.*

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