



Estate Planning Update: New Thoughts for the New Year

Talk about starting the new year on an up note: The feds boosted the personal estate tax exemption to a whopping \$1.5 million. Happy New Year!

But just like a pounding New Year's Day headache comes an equally sobering bit of news: Thanks to growth in key areas of the economy, many of us are sitting on an estate that far exceeds Uncle Sam's exemption.

What, Me? A Millionaire?

Net worth can be a deceptive thing. A paid-off home in a hot market, a healthy portfolio and a couple hundred thousand salted away, and you're fast approaching the magic \$1.5 million mark. And that becomes a real problem when you consider that married couples with estates of more than \$3 million are subject to estate taxes that can soar up to 48 percent.

Want to leave some money to the grandchildren? Better sit down: The estate taxes can reach as high as *73 percent!*

With all that in mind, now is the time to make some moves — whether it's for your own estate or for clients seeking guidance.

- **Nail down net worth.** The absolute first step in formulating a strategy is to tally up assets. Here, an experienced CPA can help. He or she can help accumulate the data, value assets and perform the calculations.

- **Juggle your assets.** For married taxpayers, the next step is the simple act of properly titling and documenting joint assets so that each spouse enjoys the maximum estate tax exemption. Doing so can net a savvy couple as much as \$3 million in estate tax exemptions.
- **Gift it away.** Paring down estate assets is another key strategy — and, as you’ll see, one that is experiencing a shift in thinking. Under current tax law, individuals may give up to \$11,000 in cash or assets to an unlimited number of people each year without incurring gift tax liability. If you give more than the \$11,000 annually, the excess is applied toward your lifetime gift-tax exclusion of \$1 million. Ultimately, you pay gift taxes on anything over \$1 million.

But something interesting is happening here. Traditionally, as their clients got older, estate planners advised them to reduce the gifts of appreciated property. They figured their older clients were better off dying with the property in the expectation of getting a step up in basis upon death. Now that the federal capital gains tax rate has dropped to a more palatable 15 percent (and sometimes lower), many estate planning professionals are viewing that idea from a different perspective. In some cases, it may be worth making the gift now and getting the assets (and future appreciation on them) out of the estate.

- **Establish a Family Limited Partnership (FLP).** To the extent that there are more assets than you can remove from the estate via gifting, the FLP continues to be a popular and effective tool. The idea is to get discounted values on property to be disposed of. The good news here is that, except in some cases of egregious and aggressive application, these arrangements have withstood critical IRS scrutiny.
- **Count on further exemptions.** Feeling lucky (and healthy)? You could always “hang in there” and take advantage of rising estate tax exemptions — scheduled to increase to \$2 million in 2006 and \$3.5

million in 2009. And the estate tax will be completely eliminated in 2010, but only to magically reappear again in 2011 at its full pre-tax-reform rate of 55 percent. Most experts expect Congress to take some kind of action before then, but there's no guaranteeing anything.

Counselor, Protect Thyself!

It's the classic case of the cobbler's children running around without shoes — busy attorneys often neglect their own (often sizeable) estates. Of course, some attorneys are not well-versed in this area, while others are often more focused on client needs than their own. Again, this is where a relationship with an experienced accounting professional can prove invaluable.

In the end, we spend our lives working hard to earn enough money and property to make the lives of our family, friends and business associates happier and more secure. Proper estate planning can help make that a reality.

Please contact our office to discuss specific estate planning strategies in more detail as they relate to your individual situation.