



Plan Your Estate to Benefit Your Family — Not Uncle Sam

When it comes to estate planning, perhaps the worst mistake you can make is to simply do nothing since doing nothing can have dire consequences.

For instance, one taxpayer — a wealthy woman with about \$20 million in assets — simply refused to consider estate planning. After all was said and done, her family ended up writing the IRS a check for nearly \$10 million.

While Uncle Sam was no doubt thrilled, the amount of estate tax could have been reduced with intelligent planning during her lifetime. The woman's family members could have received the money or her favorite cultural or charitable organizations could have benefited from bequests.

While most would agree that it's bad enough that we have to pay taxes during our lifetimes, worse yet is the thought of having to unnecessarily pay up after our demise. Yet, that is what often happens.

Here are a couple reasons that people use to argue that estate taxes couldn't possibly apply to them:

■ **"I'm not wealthy enough."** You don't have to be a billionaire to be liable for estate tax. The estate tax goes into effect when an estate has assets of more than \$2 million. Keep in mind that a taxable estate includes cash, investments, business interests, loans or notes, your home, other real estate holdings and life insurance proceeds, generally whether or not they are payable to the estate.

■ **"The estate tax was repealed."** Technically, this is true but there are several strings attached to the repeal that might result in you eventually owing estate tax.

Under the *Economic Growth and Tax Relief Reconciliation Act of 2001*, the estate tax is scheduled to gradually be phased out by 2010. But there's a "sunset provision" that calls for everything in the new law to revert back to prior law on January 1, 2011 — unless Congress acts to extend the estate tax repeal.

So if you die before 2010 or lawmakers decide not to make the estate tax repeal permanent, your estate could be liable for tax. Here are the important estate tax figures to remember.

Year	Exemption	Maximum Tax Rate
2007 and 2008	\$2 million	45%
2009	\$3.5 million	45%
2010	no limit	repealed

There are so many unknown factors in estate planning. You don't know when you'll die, how big your estate will be — and, of course, what the tax law will be at that time. To make matters worse, even though the estate tax is being phased-out, the gift tax is scheduled to remain in force with a \$1 million exemption. (Lawmakers were worried that without a gift tax, wealthy taxpayers would make large gifts to relatives in lower income tax brackets.)

What will happen to the estate tax after 2010 is anyone's guess, but many people expect that Congress will have its hand out once again in 2011 or before. After all, 2010 is around the time the first baby boomers turn 65. It's going to be a pivotal year,

Planning for the Future

Avoiding estate tax is not the only reason for estate planning. Consider these two situations:

💰 A married couple has two children. The husband dies and his widow remarries a man with three kids from a previous marriage. Without proper planning, upon the woman's death, her second husband's children could receive all of the assets from her first husband. How? Let's say the woman dies and leaves everything to her second husband. When he dies, he leaves everything to his three kids. The original couple's own two children could be left with nothing.

💰 A grandmother with a disabled grandchild leaves money for the child's care, thinking she is doing the family a favor. However, the money actually disqualified the child from receiving government benefits and the family wound up unable to afford the same level of care on their own. While the grandmother hardly intended to do harm, she was using the wrong vehicle for the family — something that an estate-planning adviser could have helped her avoid.

because with the boomers eligible for Social Security and Medicare, the demand on government resources will rise.

In short, affluent individuals must still plan for the possibility of an estate tax by balancing three goals:

1. Making sure there is enough money to take care of you and your spouse for as long as you're alive.
2. Planning to pass as many assets as possible to your heirs or favorite philanthropic organizations.
3. Trying to minimize the effect of any estate tax laws that are in place when you die.

To meet these and other goals, it is critically important to work with an experienced estate planning adviser. The sooner you begin the process, the better. Bear in mind that your estate planning professional needs to know everything about your financial situation. If you hold back information, your adviser won't be able to do a good job for you.