

Taxes

Hardworking people like you and me pay taxes -- lots of taxes. Income taxes are probably the most recognized of all taxes. But in addition to taxes paid on earnings, we also pay taxes on purchases, utilities, and on property ownership, to name just a few other taxes. After you die, your "estate" may owe the federal government up to 55% (the highest marginal gift and estate tax on schedule to be in effect on January 1, 2013) of the value of your net taxable estate in *wealth transfer taxes*. Although there were significant changes in the tax law in 2001 (Economic Growth and Tax Relief Reconciliation Act of 2001) regarding the Federal Gift and Estate Taxes, that law provided a "sunset" provision whereby unless Congress took further action, on January 1, 2011, the law was scheduled to revert to its status before the passage of the Act, except that the "estate tax exemption" (discussed below) would be \$1,000,000 per person rather than the \$675,000 in place in 2001. In December of 2010, Congress enacted a temporary 'fix' to avoid the sunset of the 2001 law by setting a \$5 million exemption for gifts and estates, at a flat 35% rate for estates over the exemption amount. As of the date of this writing, that temporary provision will expire on December 31, 2012.

The wealth transfer taxes at the federal level are called the Federal Gift and Estate Tax and may constitute the highest marginal rate your assets will ever be exposed to. At the state government level, there may be some form of "inheritance" tax. It is said that taxes, like death, are unavoidable. That statement is only partially true. Some taxes are *completely avoidable*. With proper planning, income taxes can be minimized on a year-to-year basis and estate taxes *especially* can be minimized, and oftentimes totally eliminated.

Wealth Transfer Taxes

Planning for the lawful avoidance of estate tax liability is accomplished primarily through the *proper* use of **trusts** coupled with strategic ownership planning of assets. Trusts are powerful tools that allow couples to optimize the transfer tax exemptions allowed by law. All too often, people with seemingly wonderful (and expensive) wills and/or trusts end up incurring estate tax liability needlessly because the strategic ownership of assets phase of planning was ignored or not completed. Sometimes the trust was not properly funded so that two exemptions could be used rather than one. Beneficiaries in such cases take an unnecessary tax hit. A 55% marginal tax on \$1,000,000.00 of taxable estate is \$550,000.00, which could have otherwise passed to the beneficiaries.

Other planning techniques using **family limited partnerships**, **charitable remainder trusts**, and **lifetime gifts** to children, can significantly lower wealth transfer tax exposure.