

Easing the Estate Tax Burden in 2008

One of the joys of building wealth is the knowledge that your heirs may benefit for generations. But without proper planning during your lifetime, the federal government can currently take as much as 45% of your estate when you pass on. There are strategies to lessen the burden, and putting them to use now will help ensure that more of your assets will get to your heirs rather than be used to pay estate taxes.

The first step is to create an estate plan that will clearly express your wishes and goals. The estate plan (usually through the medium of a living trust) sets the road map for implementing the plan for the distribution of assets and helps protect the estate from undesired claimants.

You should put together a team of professionals to help create an estate that enhances growth and helps reduce estate taxes and generation skipping transfer taxes. A properly planned estate will also address potential income tax problems that can be avoided and even property taxes reassessment issues. The team should include an accountant, a lawyer, and a financial advisor. “Know what your goals are, then work with them to create the correct foundation for your estate and reduce taxes within that plan.”

Give the Family a Gift

An easy way to begin transferring wealth to the next generation is to enhance what the IRS calls the annual exclusion gift. The IRS lets individuals give up to \$12,000 per year to whomever they like without paying gift taxes. The annual gift exclusion means you can begin transferring your assets to your heirs estate and gift tax-free while lessening the value of the estate that may, when you pass on, be subject to estate tax.

You can make \$12,000 annual gifts to as many people as you desire, including grandchildren or those outside your immediate family. For example, have a spouse, two children, and four grandchildren. You can give \$12,000 a year to each of your children and grandchildren, and your spouse could do the same — for a total of \$24,000 a year to each, or \$144,000 transferred between generations each year tax-free. If the grandchildren are minors you may want to utilize a trust to receive the gifts until a specific age, allowing a trustee to make distributions from that trust for their health and education needs.

When funding an IRC Section 529 plan, you are currently allowed to use your annual exclusion gift for the next five years. Individuals can make a gift to one individual of \$60,000 without paying gift taxes that year, but give up their right to make an additional gift for the following five years. Taking five years at once might be a good option for funding a beneficiary’s 529 college savings plan, which lets account holders put money into an investment account that has tax-free growth potential as long as the proceeds are used to pay for education expenses. Putting in the maximum amount early gives the fund more time to grow for the beneficiary.

Giving heirs the maximum amount allowed under the annual gift tax exclusion may not have a great impact on those with large estates. It does, however, have the benefit of not counting against



the federal government's lifetime gift tax exclusion, which lets individuals to gift up to \$1 million during their lifetimes without being taxed. You should discuss the potential complexities of this tax credit with your advisors.

Put Your Life Insurance Into a Trust

A life insurance trust is a tool that further leverages the annual exclusion gift by shielding the life insurance proceeds from estate taxation. Generally, the trusts are formed to purchase a new life insurance policy. The policyholder then funds the trust with money or other assets to pay the premiums. Life Insurance trusts are a wonderful for providing liquidity to your estate to pay estate taxes, or to provide income replacement for your family without adding to your taxable estate.

The trustee of the trust is both the policy owner and the beneficiary. Upon your death, the trustee makes distributions according to your trust document. If the trust is properly drafted, the proceeds of the death benefit are not included in your estate for estate tax purposes. One thing to keep in mind: Life insurance trusts are irrevocable, but with proper planning, trust provisions can accommodate changes in the future. Flexibility and coordination are the key components of a solid estate plan.

Talk to Your Advisors About:

- Creating or updating your estate plan, including estate tax planning
- Putting the annual gift exclusion to work in reducing future estate taxes
- Creating a life insurance trust to pass wealth to heirs estate-tax-free