The "Daily Plan-It™"

LAW OFFICES OF GARY R. WAITZMAN, L.L.C.

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Think Your Client is Exempt from the Federal Estate Tax? Perhaps Not

In my experience, none of my clients think of themselves as "rich." In fact, they might tell you the opposite because they each "know a guy worth twice as much as me. Now, he's rich!"

The trap in this way of thinking is that a client's misunderstanding of his actual wealth might set his family up for a big tax bill.

According to a recent Wall Street Journal article (http://tinyurl.com/4f93h5n), some upper middle-class folks have no idea that they are exposed to this tax, which hits at a 35% rate.

While the current law provides a $5 million estate tax exemption for those who die in 2011 and 2012, this "coupon" can easily be exceeded if your client has large amounts of life insurance coverage, a nice home and healthy retirement accounts.

What Is Included in a Taxable Estate?

The value of an estate includes proceeds from life insurance policies; the homestead and other properties; retirement and investment accounts; automobiles, furniture, collectibles and personal belongings. The estate also includes any business ownership interests.

Here's an example:
Rob is a divorced, single parent. He's a pediatrician with a good salary. He has a $3.5 million term life policy to provide for his minor children. He also has $1 million of equity in a home, $1.5 million in retirement plan accounts, and $200,000 worth of assorted personal assets. He has no significant debts beyond a mortgage.

He also has never done estate-tax-avoidance planning. If Rob died tomorrow, his estate would be worth $6.2 million for federal estate tax purposes, and his estate would owe $420,000 in taxes. Depending on where he lives, there may be a state estate tax bill, too.

Life Insurance Usually Tips the Scale

With single clients, having a large amount of life insurance is the most common trigger for the estate tax. It usually presents less of a problem for married couples because life insurance benefits usually go to the surviving spouse tax-free.

To avoid having the estate tax triggered by life insurance coverage, your client can set up an irrevocable life insurance trust. In this strategy, the policy and benefits are owned by the trust and can't be considered part of the individual's estate.

Introduce Your Client to an Estate Planner

It will cost you some bucks, but it will probably be money well spent. Plus, you can make sure your estate plan deals with important non-tax issues like naming a guardian for your minor children and avoiding probate.

As always, I hope this article has helped you and your clients. If you have a specific case or concern, please contact our office.

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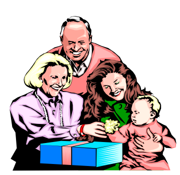

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