MINIMIZE TAXES THROUGH ESTATE PLANNING

Through proper estate planning, you can have your assets distributed according to your wishes after your death. Successful estate planning transfers your assets to your beneficiaries quickly with minimal tax consequences.

Following is a general overview of estate planning. You should consult an attorney, a CPA or tax adviser for additional guidance.

NOT JUST FOR WEALTHY

You don't have to be a multimillionaire to need estate planning. If you own a home and have life insurance, investments and retirement plans, you more than likely have assets worth several million dollars. Good estate planning can minimize the taxes on your estate, enabling more of your wealth to pass to your heirs. Proper estate planning also ensures that your assets are disposed of as you wish.

In 2009, estates worth in excess of $3.5 million (or $7 million for couples in community property states) may be subject to federal estate taxes. Estates under that amount generally are excluded from estate taxes. If Congress does not pass new legislation before the end of 2009, the estate tax exclusion supposedly will end in 2010. That means that estates, regardless of size, will not be subject to federal estate taxes during 2010. However, in 2011 the excluded amount will revert to $1 million. Nevertheless, estate tax law—and the amounts excluded—likely will change. It is to your—and your heirs'—advantage to consult with a financial adviser to keep current on tax law and how it affects your estate.

TAKING STOCK OF ASSETS

The first step in estate planning is to inventory and assign a value to everything you own.

Here's a list to get you started. You may need to delete or add categories.

- Residence
- Other real estate
- Savings
- Investments
- 401(k), IRA, pension and other retirement accounts
- Life insurance policies and annuities
- Ownership interest in a business
- Jewelry
- Other personal property

Once you've estimated the value of your estate, you're ready to plan. Keep in mind that estate planning is not a one-time job. Major changes in your life may call for a review of your plan. Take a fresh look at your estate plan if:

- The value of your assets changes significantly.
- You marry, divorce or remarry.
- You have a child.
- You move to a different state.
- The executor of your will or the administrator of your trust dies or becomes incapacitated, or your relationship with that person changes significantly.
- One of your heirs dies or has a permanent change in health.
- The laws affecting your estate change.

HOW ESTATES ARE TAXED

Federal gift and estate tax law permits each taxpayer to transfer a certain amount of assets free from tax during his or her lifetime or at death. In addition, as discussed in the next section, you can make certain gifts that are not counted against this amount.

The amount of money you can shield from federal estate or gift taxes is determined by the federal unified tax credit. The credit is used during your lifetime when you make certain taxable gifts, and your estate can use the balance, if any, after your death.

Keep in mind that while you can plan to minimize taxes, your estate may still have to pay some federal estate taxes. What's more, your estate may be subject to state estate or inheritance taxes. An estate-planning professional can provide more information regarding state taxes.

MINIMIZING ESTATE TAXATION

You can use numerous planning methods to minimize federal taxes on your estate.

1. Give away assets during your lifetime. Federal tax law generally allows each individual to give up to $13,000* per year to anyone without paying gift taxes, subject to certain

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restrictions. That means you can transfer some of your wealth to your children or others during your lifetime to reduce your taxable estate.

For example, you could give $13,000 a year to each of your children, and your spouse could do likewise (for a total of $26,000 per year to each child). You may make $13,000 annual gifts to as many people as you wish.

You may also give your child or another person more than $13,000 a year without having to pay federal gift taxes, but the excess amount will count against the amount shielded from tax by your unified credit.**

** The gift tax exclusion is periodically adjusted for inflation, as measured by the Consumer Price Index (CPI) published by the Department of Labor. The increases will be in multiples of $1,000. This exclusion applies only to a gift of a present interest in property. Therefore, gifts made intrust generally will not qualify for this exclusion.*

***Simply put, the unified credit combines both gift tax and estate tax exclusions, allowing taxpayers to exclude amounts that might have been taxed under the gift tax but reducing the amount excluded from estate taxes. Certain paperwork needs to be filed in such situations, however, and records need to be maintained. You may want to consult a financial adviser to determine how best to handle gifts in excess of the yearly excluded amount.*

2. Shield property transferred to a spouse from taxes. Federal tax law generally permits you to transfer assets to your spouse without incurring gift or estate taxes, regardless of the amount. Marital deductions, however, may increase the total combined federal estate tax liability of the spouses upon the subsequent death of the surviving spouse. To avoid this problem, many couples choose to establish a bypass trust.

3. Bypass trusts or credit shelter trusts can give a couple the advantages of the marital deduction while using the unified credit to its fullest. Let's say, for example, that a married couple has a federal taxable estate worth $5 million (or $2.5 million each). Using the marital deduction, if one spouse dies in 2009 the full $2.5 million can be left to the other spouse without incurring taxes. If the second spouse dies in 2010 and passes his or her $5 million estate on to their children, no federal estate taxes will be levied under current law. However, if the second spouse dies in 2011, the estate will incur taxes on $4 million as only $1 million is shielded in 2011 under current law.

With a bypass or credit shelter trust, the first spouse to die can leave the amount shielded by the unified credit to the trust. The trust can provide income to the surviving spouse for life.

Upon the death of the surviving spouse, the assets are distributed to beneficiaries. This permits the spouse who dies first to fully use his or her unified credit.

4. Charitable gifts are not taxed as long as the contribution is made to an organization that operates for religious, charitable or educational purposes. Make sure, however, that any religious, charitable or educational entity to which you are donating is recognized as a 501(c)(3) under the federal tax code. If not, your gift is not tax deductible.

5. Life insurance trusts can be designed to keep the proceeds of a life insurance policy out of your estate and give your estate the liquidity it needs. Generally, you can fund a life insurance trust either by transferring an existing life insurance policy or by having the trust purchase a new policy.*** With proper planning, the proceeds from life insurance held by the trust may pass to trust beneficiaries without income or estate taxes.

**** Transferring an existing policy may have gift tax consequences. Consult your tax adviser. Estate planning is very complex and is subject to changing laws. Be sure to seek professional advice from a qualified attorney, a CPA or an estate planner. The money you spend now to plan your estate can mean more money for your beneficiaries in the long run.*

(Adapted from a Federal Citizen Information Center pamphlet.)