

Pass Your Assets to Loved Ones...Not Uncle Sam  
**by Sue Woodard**

**If you don't have an estate plan in place, don't worry...the IRS has one for you.** But you may not like it, so it's always a good idea to get your finances in order and avoid incurring tax penalties and hefty estate taxes. Knowing the value of your estate and becoming familiar with several exemptions and tax benefits can help you hand your assets over to your loved ones...without handing a portion of your hard earned assets over to Uncle Sam.

Some good news—the new Federal estate tax exclusion increased in 2006 to \$2 million per person. In the past ten years, that amount has increased over 230 percent, as the figure is up from \$600,000 in 1996. Count on this tax exclusion figure to remain in effect until 2009, then the amount is scheduled to increase one more time to \$3,500,000 per person. After 2010, it will supposedly be repealed altogether.

**So what does all this estate tax stuff mean and how do you know if it applies to you?**

Estate tax differs from income tax in that income tax is owed every year on any revenue. Estate tax is owed on the net value of your estate at the time of your death *if* you leave your assets to any beneficiary other than your spouse. To break this down, let's say you pass away and leave your entire estate to your children. Your estate is made up of everything you own and includes such items as residential property, life insurance proceeds, IRAs, automobiles, jewelry, cash accounts, etc. If you total the amount of all assets and subtract any debts that you may owe against property or automobiles, the remaining value is known as your "net estate value" and that is the "net value" that could be subject to estate tax.

**Determining whether or not your estate would be subject to an estate tax is fairly simple.**

Take your net estate value—and don't forget to include life insurance policies and the value of your home...it can add up fast—and subtract the estate tax exemption amount of \$2,000,000. If the remaining figure is a positive amount, your beneficiaries would be subject to estate tax on the remaining amount. If the remaining amount is zero, or a negative number, your beneficiaries would not be subject to an estate tax. For example, if your net estate value is \$3,500,000 and you subtract the \$2,000,000 estate tax exemption, the remaining figure of \$1,500,000 would be subject to estate taxes. Being that your intention would be to pass along all of your assets to your children, a significant amount of your estate could be handed over to Uncle Sam.

**There are, however, a few alternatives that you can implement now to avoid this situation.**

First consider gifting money each and every year to lower your net estate value. Many baby boomers are taking advantage of gifting funds to their children and grandchildren and these funds are helping baby boomers' children (also known as echo-boomers) purchase homes and build their own financial portfolios. But gifting is not limited to children and grandchildren, gifts can be given to anyone, including friends, charities, a political organization, or even your spouse. Gifting is typically done at the end of the year, but can be done any time during the year. As of January 2006, you can gift up to \$12,000 per individual each year tax free. This amount increased from \$11,000 in 2005.

Another great way to lower your estate tax is to pay college tuition. You can give a gift of up to five times the standard gift amount, (standard gift being \$12,000) to a Qualified Tuition Program (QTP) also known as a 529 Plan in the same year and deduct the entire amount.

Here is how it works. If you have a sizeable estate, a large portion of which you want to offload, you can gift to a QTP or 529 plan a maximum of \$60,000 per individual. However, it is important to note, if you gift the maximum allowable amount in one year, you cannot take advantage of the college tuition gift deduction in 2006 and 2007 without tax consequences. If you take the maximum deduction, this gift can only be given once every five years.

Or consider setting up an "A-B Trust" while both partners are alive...it can double the amount of money you can leave to your beneficiaries free of estate tax. The A-B Trust was specifically devised to reduce estate tax liability, and presently can shelter up to \$4,000,000 for both partners. Here's how it works. Let's say an estate is worth \$4,000,000 and the assets are divided equally between both partners, the "A" portion of the trust would be worth \$2,000,000 and the "B" portion of the trust would be worth \$2,000,000. If person "A" passes away, the assets transfer to the surviving spouse and the assets are handled no differently than if the assets were not in a trust. Then when surviving spouse "B" passes away, the entire estate can be transferred to the beneficiaries, using the tax exempt credit from both "A" and "B"...resulting in zero estate tax.

But if a trust is not specifically created as an A-B Trust, the estate tax could be costly. If a husband and wife set up a revocable trust and the husband passes, all assets will most likely transfer to the wife and become part of her estate. Even though the husband's assets transferred to the wife tax free, the beneficiaries will be subject to estate tax on the total amount of the estate when the wife passes.

**Estate tax can be a very costly expense, so planning in advance is very important to protect your assets. Even if your estate falls short of the Federal estate tax exclusion amount, take the time to discuss your estate with a professional. If the law changes and the amount for the estate tax exclusion decreases, the tax consequences could far exceed the cost of establishing a good plan for your estate.**

**It is highly recommended that you discuss your estate with a qualified professional...so feel free to give me a call if you should you need a referral.**