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Solutions for Families™

State of the Estate Tax Redux

By Matthew Crider, JD
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Do you know if your family would have to pay an estate tax on your assets if you died today? If you're like most people, you're probably worth more dead than alive. It's not uncommon for average, middle class families to be worth over $1 million at death by virtue of term or permanent life insurance that is counted in the taxable estate.

If that describes you, you must keep your eye on the estate tax changes expected at the end of this year. That's because in 2011, Congress did something it's never done before—it raised the ceiling on the estate tax exemption to $5 million—for two years only. At the end of that two-year term, the estate tax exemption amount is scheduled to drop to $1 million.

Because many families could be affected by a reduction in the exemption amount—and in an election year, that would be a very unpopular move—most professionals believe Congress will act to reduce the estate tax exemption, but not necessarily to the $1 million it will automatically become if Congress doesn't act.

No one really knows what Congress will do with the estate tax. There are a number of bills under consideration of varying impact on families. What we do know, though, is that the estate tax exemption amount will likely be reduced so that this period of very expansive gifting of estate assets will end.

And that's bad because gifting is a very powerful tool in reducing the amount of taxes families pay when a loved one dies—sometimes saving valuable family assets such as farms, ranches, and businesses from being lost to the biggest creditor in the world—the IRS.

Estate planners and financial advisors have long known how to make gifts out of your estate of appreciating assets so they don't count in your taxable estate. But under this unique $5 million exemption, people can gift out of their estates very large assets that are growing or will grow. Once an asset is out of a taxable estate, it can continue to grow and benefit loved ones and charities estate tax-free.

For instance, imagine (yes, it's hard but do) that you have $6 million in cash. If you died right now, your family would pay tax on $1 million at a flat rate of 35% for a total death tax of $350,000. If you do nothing and the estate tax exemption falls to the scheduled amount of $1 million at an effective rate of 55%, your family will pay $2.75 million in estate taxes.

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Now, imagine that you have a conversation with a Personal Family Lawyer who recommends that you gift some of your cash into a trust that purchases a life insurance policy on you, a parent, or a grandparent. That policy is owned by the trust and at death the policy pays into the trust—at a rate of two to ten times the size of the original gift. TAX-FREE. Zero tax. Yes, not one penny to Uncle Sam. In fact, that would leave your family with enough to give generously to charities and foundations that you love as well as provide additional resources for your loved ones.

That's a MASSIVE tax-free gift, isn't it?

Now, even if you don't have $5 million, you may have assets that will grow enough that it makes sense to gift them out of your estate while the exemption amount is so high. Even moderate gifts can become extremely valuable inside a tax-free vehicle.

But you won't know unless you talk to a professional who can guide you and help you formulate a strategy to take advantage of this window—a window that's getting narrower by the day. To help you get the insight and planning you need to help you take advantage of this perfect tax storm, please come and see us now, because planning can take time and there are only six and a half months left before the window is scheduled to close.

About Matthew Crider, J.D.

Matthew Crider formed **Crider Law PC** in 1999 so he could help individuals and business owners by providing creative solutions and be their trusted advisor and legal counselor. He serves his clients by listening closely to their goals, dreams and concerns and working with them to develop superior and comprehensive estate and asset protection plans. His estate planning practice focuses on preserving and growing wealth by providing comprehensive, highly personalized estate planning counsel to couples, families, individuals and businesses.

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