

Dear Client:

Planning for the Long-Haul

A lot of people do not want to think about the inevitable. But, we all know that the only two things you can count on in life are death and taxes. If planned well, you can minimize the pain of both. Being caught off-guard can cost far more than planning up-front. Below are a few items that you should consider before the end of the year.

How Do New Estate Tax Rules Affect You?

You may have heard that there are new rules on estate taxes as a result of the new tax law enacted earlier this year. The top tax rate on estates rose to 40% from 35% as of Jan. 1, 2013, but no tax will be imposed on the first \$5.25 million (adjusted for inflation) of an estate. While \$5.25 million sounds like a lot, and you may think that the estate tax doesn't affect you or your family, you may be surprised. Estate planning should still be a priority. A married taxpayer has the ability to transfer any unused estate tax exemption to their surviving spouse, which could yield huge benefits down the road. But, this is an election that must be made on an estate tax return. Contact us now to discuss all your questions about estate planning and the steps you can take to minimize the potential estate tax burden to your beneficiaries.

Gifts

While large gifts can be subject to rules with a multitude of variables, you can give away up to an "annual exclusion amount" per recipient per year free of gift tax and free of any future offset against any exemption amount used to lower future gift or estate taxes. For 2013 and 2014, that annual exclusion amount is \$14,000 (up from \$13,000 in 2012).

There is a great deal of flexibility in the types of property that can be transferred. Gifts that qualify for the \$14,000 annual exclusion can be made in money, property such as stocks or bonds, or even a life insurance policy, as long as the recipient gets the present right to possess or use the property. The gift may be in trust if the terms of the trust give the recipient the immediate right to the property or income from the property.

You can give up to \$28,000 in 2013 and 2014 per recipient per year if you are married and your spouse consents to "split" your gifts. This is useful for spouses who do not own an equal amount of property. The spouse with less property can consent to gifts made by the wealthier spouse, thereby effectively doubling the amount that the wealthier spouse can give away tax-free. To take advantage of "gift splitting," both spouses must be U.S. citizens or residents. The consent must be given on a gift tax return, so a return must be filed even if no gift tax is due.

Absent the immediate financial needs of a gift recipient, the main motivation for making large gifts during your lifetime rather than waiting to pass on your wealth at death is to remove future appreciation from your eventual taxable estate.

It is important to remember when you make a gift that the recipient must take your basis in the property. This means that if the recipient sells the property, any gain on the sale will be measured using what you paid for the property, not what the property was worth when he or she received it. In contrast, if property is transferred to another through your estate your heirs will receive a stepped-up tax basis equal to the asset's fair market value at death. Thus, the loss of stepped up basis and higher future tax rates on capital gains may diminish the benefits of current gift giving as opposed to your heirs inheriting your assets. Consequently, choosing the right property to achieve your goals is an important aspect of any gift-giving program. Nevertheless, the consensus is that getting future appreciation out of a taxable estate still trumps worries about any tax issues for your donees if and when they eventually were to sell the gifted assets.

Is Your Will Up To Date?

When was the last time you reviewed your will? People generally make Wills to guarantee the proper disposition of their money and property, which is why it's a good idea to consult your CPA when it's time to create or update your Will. Also, a well drafted Will or trust document could avoid costly probate costs.

We recommend that you revisit your Will every time you experience a major life event, such as marriage, the birth of a child, retirement or other significant milestones. Even if there is no meaningful change in your life, it's smart to review the document every couple of years to ensure it still addresses all your estate concerns and reflects your wishes. Changes in the value of your investments—such as a stock portfolio or real estate—may also require adjustments in your estate planning, college savings or other financial concerns.

It is never too early to start or update your estate plan, gift plan, and Will. But, it can be too late if you fail to plan and the inevitable were to happen. Please contact our office to get started on the right path.

