

BAKER LAW GROUP

ATTORNEYS AT LAW

Estate Tax Planning

What is Estate Tax Planning?

Estate tax planning is the process of developing a strategy for the distribution of your property after your death, so that your property goes to the persons you want to benefit, and in a way that minimizes or avoids federal estate taxes.

Who Needs Estate Tax Planning?

Anyone who owns enough property to be subject to federal estate taxes. For 2009, that meant anyone with a total net estate valued at more than \$3.5 million.

IMPORTANT CHANGES FOR 2010: For this year only, there is no estate tax. However, we have the unusual situation of having carryover basis for inherited assets. Subject to certain exemptions, this means that you may have to pay capital gains tax on property you inherit, based on the value of the property on the date it was acquired by the deceased (not the value on the date of death of the deceased, as has been the rule for many years).

Under current law, the estate tax will return on January 1, 2011, with only a \$1 million exemption. So, if your total estate exceeds this amount, you need tax planning advice.

To see if you are over the \$1 million exemption amount, you should add up the value of all your property and assets. This generally includes your home, bank accounts, brokerage accounts, stocks, bonds, 401(k) plans, IRAs, automobiles, collectibles, jewelry, home furniture and furnishings, plus all life insurance benefits, less your outstanding debts. Remember, life insurance is generally subject to estate tax, unless the policy is owned in an Irrevocable Life Insurance Trust (ILIT).

How High Are the Federal Estate Tax Rates?

For 2011, the top estate tax rate will be 55%. If you have an estate valued at \$2 Million and die in 2011, the federal estate tax due would be approximately \$435,000. If the value of your estate is \$3 Million, the tax would be approximately \$945,000.

Wow, That's a Lot of Tax. Can the Federal Estate Tax Be Avoided?

Yes. We can help you establish a plan that in most cases will avoid or reduce your estate tax.

How Do These Plans Work to Avoid Estate Tax?

In many cases, we use Trusts structured to ensure that married couples utilize both of their federal estate tax exemptions. Without the use of these Trusts, one of the exemptions is usually lost, resulting in estate tax being due that could have been avoided. In addition, we use Trusts designed to hold life insurance proceeds or benefit charities, which also have significant tax benefits and may help you avoid the negative impact of the federal estate tax.

Is Estate Tax Planning Just For Older People?

Absolutely not. We work with many younger clients, who often need estate tax planning because they have purchased significant amounts of life insurance to protect their young children. It is wise to plan ahead to protect your family, and not lose 55% or more of your estate to the IRS.

Important: This material is provided for general information purposes only, does not constitute legal advice, and may not be applicable to your particular situation. You should not act or rely on any of this information without seeking the advice of an attorney. © 2010 Baker Law Group, LLC. All Rights Reserved.