

2012 The Greatest Opportunity for Your Estate Plan



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For many high-net-worth individuals, the sleeping giant of taxes is the estate tax. Often overlooked and unplanned for, the estate tax can be the most significant tax a family pays and, unfortunately, it comes right after the passing of a loved one.

To understand the unique benefits of the current law, it is important to first review a little tax history. Ten years ago the estate tax exemption was \$1,000,000 per person with a top tax rate of 50%. This meant if an individual passed away in 2002, any assets passed to their children in excess of \$1,000,000 could be taxed at a top rate of 50%. This could be a devastating tax, potentially forcing liquidation, especially if the inherited assets were illiquid, such as a family business. Think a 50% tax is bad? Historically, the highest estate tax rate reached 77% and stayed at that level for several decades.

The good news... For 2011 and 2012 Congress decided to allow a temporary estate and gift tax exemption of \$5,000,000 per person, combined with a top rate of 35%. This means that a couple could potentially gift up to \$10,000,000 without any tax. Furthermore, if the gifted asset appreciates over time, all of the future growth is free of estate tax under current law. This could translate to millions in tax savings for future generations. The bad news... Under current law the exemption goes back to \$1,000,000 and a top rate of 55% on January 1st, 2013.

Before implementing any estate transactions, there are several important questions to answer, such as:

- How much is enough to protect my personal financial security?
(You'll want to ensure that you are not giving too much away that might sacrifice your own cash flow needs)
- How can I ensure that assets passed to my children are protected against potential future divorces or lawsuits?
- How can I ensure that my children manage and spend the money wisely?

Just because a high exemption amount exists doesn't mean you should gift your assets away. One of the most important things you can do before implementing an estate plan is to go through a comprehensive process of identifying your personal objectives and financial needs with an expert advisor. Once you gain clarity over your personal financial affairs, you will be more empowered to make a decision as to whether gifting assets is in your best interest and if it fits your long-term financial plan.