FREEDOM BROKER SERVICES

Case Study
Estate Taxes

ESTATE TAXES

THE ISSUE

As we approach 2010, the debate over the hot topic of estate taxes hasn't gone away. The question remains, "Are estate taxes here to stay?" Regardless of personal opinions on the subject, it seems unrealistic that with the current economy and financial obligations of the government that estate taxes will be abolished forever.

As illustrated in the chart below, as a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the estate tax will be repealed for one year in 2010. However, the provisions of EGTRRA will expire on December 31, 2010. If a new estate tax law is not enacted before EGTRRA expires, in 2011 the estate tax exemption will return to the 2001 limits of $1,000,000 per person, and the highest estate tax will be 55%.

Year	Top Estate Tax Rate	Estate Tax Exemption	Applicable Credit
2002	50%	$1 million	$345,800
2003	49%	$1 million	$345,800
2004	48%	$1.5 million	$555,800
2005	47%	$1.5 million	$555,800
2006	46%	$2 million	$780,800
2007	45%	$2 million	$780,800
2008	45%	$2 million	$780,800
2009	45%	$3.5 million	$1,455,800
2010	Repealed	N/A	N/A
2011	**55%**	**$1 million**	**$345,800**

The uncertainty of this issue raises many important questions for our clients:

★ Can they afford to wait for Congress and the President to decide on the fate of their family legacy?
★ Do they consider estate taxes confiscatory?
★ If they already paid taxes on the assets accumulated during their lifetime, should they be taxed again at death?
★ Should they be deciding who will be the beneficiary of their successes, rather than being told by the government?

THE SCENARIO

Alice and Ryan Buckle are ages 62 and 65 and they reside in Virginia. Their personal net worth consists of the following assets:

Personal Residence in Leesburg, VA (fully paid)	$1,500,000
Beach House in Outer Banks, NC (fully paid)	$500,000
Stock Portfolio	$1,000,000
Ryan 401(k)	$500,000
Alice 401(k)	$250,000
Total Net Worth	**$3,750,000**

Alice's mother is still alive but when she passes it is likely that Alice will inherit another $1,000,000 in CDs and annuities. They have 2 grown children with solid careers and young families. Alice has $150,000 of personal term life insurance due to run out in 5 years, and Ryan has $250,000 of term life insurance which will run out by his age 70. They would like to leave a legacy for their lifetime of work and have always been community minded people.

Based on the current sunset provisions it appears as though they will have the ability at a minimum to shelter $1,000,000 each through the Unified Credit in 2011 and beyond. After calculating all the numbers, it appears that at the death of the surviving spouse, the Buckle's would have an estate tax liability of $1,350,000 after the Estate Tax Form 706 is filed. This is calculated by assuming the inclusion of the inheritance which makes their net worth of $4,750,000, the use of the unified credit of $2,000,000 total, leaving $2,750,000 of estate assets exposed to the estate tax at a rate of 50% (unlimited marital deduction used at death of first spouse). What asset will they have to liquidate to pay the taxes? These taxes assume no growth of the estate which is unrealistic.

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THE SOLUTION

Considering that the Buckle's estate will continue to grow over their next 20 years of joint life expectancy, and an estimated inflation rate of 5%, they could be looking at a total net worth of $8,000,000 at time of the survivor's death. Since estate tax reform is still uncertain, the Buckle's met with insurance agent John Smith to discuss a variety of insurance options.

The strategy that fits their needs best became very clear, apply for $2,000,000 of permanent survivorship/second-to-die coverage now as well as $2,000,000 of survivorship term to guarantee insurability. Assuming the best underwriting class, the premiums would be as follows:

Product	Death Benefit	Annual Premium
Survivorship Universal Life	$2,000,000	$21,158
Survivorship 10-Year Term	$2,000,000	$3,125

The term insurance is incredibly inexpensive and allows them to maximize coverage for cost. John Smith also recommended creating an Irrevocable Life Insurance Trust (ILIT) and gift the premiums each year to the trust from current assets. Utilizing the annual gift tax exclusion for each of their two children (split gifting at $13,000 per husband and wife per child), the Buckle's have a potential $52,000 of gifts they can choose to allocate to the trust to pay premiums.

THE RESULT

The Buckle's have $4,000,000 of life insurance coverage to handle their estate tax issue. The Buckle's CPA and attorney are very pleased with the idea to blend term insurance with permanent as they both agree that preserving insurability is a smart move and in the best interest of the clients. The Buckle's will have the opportunity in the future to convert that $2 million of term to a permanent survivorship policy without additional medical underwriting.

Alice and Ryan Buckle feel confident knowing that they're utilizing tax savings strategies to preserve their family legacy and that they have the ability to give charitably at their own discretion and preservation of a hard earned lifetime of work.

At Freedom Broker Services, our specialty is in the second-to-die market. We can offer you multiple levels of support when it comes to your estate planning cases. Based on your clients sophistication and the detail of fact finding you do, we can provide you with attractive presentations and output to guide you and your client through the planning process. This support demonstrates to your client the level of expertise and diligence you have provided on their behalf. Please contact us today at (703) 287-7130 to experience this level of support for yourself.