

## INSIGHT-FORESIGHT-HINDSIGHT

### THE ESTATE TAX CLIFF IS RIGHT IN FRONT OF YOU!

BY DEE SLAVUTIN, MBA, ChFC

By the time you read this, the two billion dollar loss on some investment positions at JP Morgan will be nothing more than a faded whiff of sensational front page news which, likely, didn't impact you anyway. So why start an article of tremendous personal importance with an apparently meaningless reminder?

Here's why; I want you to get into your gut that when your estate tax return is filed, you will ***not*** have the same opportunity for boisterous apologies. You ***won't have a second chance*** to say something like: "It was flawed, complex, poorly reviewed, poorly executed and poorly monitored. This isn't the way we want to run things around here; we're going to fix this until we get it right." (Wall Street Journal may 2012 quoting Jamie Dimon)

#### **Here's the deal right now:**

For the balance of 2012, \$10,000,000 can pass to the next generation from a married couple without federal gift or estate tax. More than that amount and the federal estate tax rate is 35%. New York state estate tax is on top of that.

#### **CONGRESS MUST VOTE ON THIS MATTER THIS YEAR OR ELSE...**

Beginning in 2013 ***only \$2,000,000*** can pass to the next generation from a married couple without federal gift or estate tax. More than that amount and the federal estate tax rate will be 55%. New York state estate tax is on top of that.

**INSIGHT:** A clear perception of something. The ability to see clearly and intuitively into a situation (Encarta dictionary)

Are you getting a sense of urgency around what may be a unique and formidable opportunity for the balance of this year? Estate planning needs refurbishing just like hallways and kitchens. For example, insurance companies now use mortality tables that go to age 120. That means the basic cost of life insurance is lower than it was 10 years ago. Interest rates are the lowest they have ever been; this means a special trust called a GRAT, which enables assets to be transferred out of your estate, is very timely. It also means loan interest rates are low providing intra-family lending opportunities.

**FORESIGHT:** The act of looking forward (Encarta dictionary)

Right now, until the end of this year, each person has \$5,000,000 of "gifting power." That means a husband and wife can give away a total of \$10,000,000 and never have to pay estate tax on that amount. One idea is to set up a life insurance trust and gift that amount into the trust either in cash or in real estate assets. Then, use the cash flow from the trust to purchase a life insurance policy that will be income tax free and estate tax free. The life insurance can then be used to provide the liquidity needed to pay your estate taxes. (If you already have a life

insurance policy, it should be reviewed at least every two years. With recent changes in products, you may qualify for a policy that could provide more death benefit, more guarantees or a cheaper premium.

**HINDSIGHT:** The ability or opportunity to understand and judge an event or experience after it has occurred. (Encarta dictionary)

For those who have implemented an estate plan, you know the personal sense of satisfaction which is a privilege reserved for “doers.” But here’s an example of why you need to regularly re-visit your plan. I recently reread my insurance trust provisions and my will and decided I wanted to restructure the timing of when my grown children would receive their inheritance. I also added an “incentive” trust which means they will receive money from the trust I have set up based on how they are contributing to society and how much money they are earning. This came about because I took the time to reread my documents and think carefully about the future for my family. I surprised myself when I realized how my wishes had changed over the years. Further, it took enormous initiative to contact my attorney, explain my new goals, read the drafts, read the edits, re-read the drafts, re-read the edits and then finally execute new documents. But boy do I feel good about my new plan!

**SIGHT:** The range or field of vision. Something that is worth seeing (Encarta dictionary)

Dee Slavutin, MBA, ChFC is the president of Stern Slavutin-2 Inc. a boutique insurance and investment advisory firm in Manhattan. She can be reached at 212-536-6025 or [ds@sternslavutin.com](mailto:ds@sternslavutin.com). Web address: [www.sternslavutin.com](http://www.sternslavutin.com)

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