

# The Virginian-Pilot

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## THE KEY TO MANAGING WEALTH? MANAGING TAXES.

AT THE CORE of wealth management is taxation. This is what I affectionately term "found money." By understanding some of the hidden nuances of the tax code, you can get a very nice, and sometimes very significant, tax savings. This translates into more income, which is especially good for retirees.

To find these savings, you have to pay attention to more than the income tax, including capital gains. There are four other taxes that do not get the attention they deserve but have a large impact on the preservation and transfer value of your wealth. These taxes are: income in respect to decedent, gift tax, estate tax and the alternative minimum tax.

One way to ensure all five taxes are leveraged in your favor is to insert a systematized element into your wealth management process. When there is a defined protocol in the wealth management process, the human element is much less likely to break down and the likelihood of significant tax damage is minimized.

When your wealth management process is properly systematized, aggressive tax analysis is required annually and mandates extensive knowledge of how to effectively minimize and/or negate all five taxes.

Take the income in respect to decedent tax, for example. One reason this tax is overlooked and seldom discussed is because, as a general rule, if you have settled an estate of an elderly person in the last 10 to 15 years, it is unlikely that you ran into this tax. Those estates are mostly pension-based and traditionally do not have IRAs and annuities. It is a tax that very likely will be assessed to the estates of many baby boomers, so it should be discussed when prioritizing asset utilization during the income cycle.

Another tax that is under the radar is the gift tax. Improper documentation here can be very costly, as this tax is currently 35 percent for 2011 and 2012. I strongly urge individuals to keep a detailed log of any and all cash, check, or asset transfers to their adult children or grandchildren. If you are audited and cannot validate a transfer, you are not going to be happy with the tax and penalties.

Also, most people limit their gift to the current annual exclusion of \$13,000. They assume that they are limited to this figure and subject to the gift tax if they exceed it. However, under the new tax code, any person can gift to another person and neither party will be subject to any gift tax if the gift is identified as a nontaxable transfer and filed properly with the IRS.

It is important to understand that a very narrow scope of certain tax issues may prove to be very costly to you and your family. The good news is that you can be proactive in your wealth management efforts to prevent this.

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