

What families worth \$8M must do to prepare for 45 percent tax

As we reflect on 2005 and why families with large estates, those exceeding \$8 million, came to us looking for advice, what we conclude is that there is a surprising amount of confusion over estate taxes.

The confusion exists, even though there are some powerful solutions that wealthy families can use to eliminate or minimize an impending tax disaster.

Most affluent families have heard of the devastating effects of estate taxes but few realize the true extent of the devastation that estate taxes can cause. Our experience and the research we see show that most wealthy families are not well positioned to deflect the blow from the looming 45 percent estate tax.

- Take-aways**
- Wealthy Americans face major taxes upon death.
 - Don't expect Congress to undermine tax revenues.
 - A living trust isn't enough.

Many wealthy families are hopeful that the estate tax law will be changed, but the reality is that Uncle Sam is counting on this generation's estate tax proceeds. Therefore, it would be unwise to believe that Congress will make changes to the tax law that would dramatically undermine federal tax revenues.

We believe that even if the law is changed, the wealthiest Americans would still be subject to some form of substantial taxation.

We'll start our discussion of strategies with real-life reasons why families with net worths ranging from \$8 million to more than \$50 million contacted us in 2005:

- "I recently lost my spouse and I heard that estate taxes could ultimately cost me over \$12 million, plus when my \$4 million IRA is taxed I stand to lose over \$1.4 million to income taxes. What should I do to protect my wealth and pass it along to our kids?"

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- "We have a net worth of \$12 million and keeping Uncle Sam's sticky fingers out of our estate is our top priority."
- "My family set up a living trust in the 1970s, I am retired and very interested in philanthropy, what should I be doing?"

Although it may appear that these families have different concerns, the issue at heart is taxes: How can they get the most income or pass along the maximum net worth to others who are important to them.

(Although this article focuses on taxes, our latest white paper titled "Four Factors The Affluent Must Know To Avoid Financial Disaster And Secure Their Dreams" is a broader discussion of pitfalls wealthy families face. It is available for those who wish to learn more. Just e-mail us at FourFactors@PillarOnline.com.)

A \$15 million estate can lose about \$7.5 million to estate and income taxes, leaving the heirs to split the other \$7.5 million.

But instead, why not give your entire estate away twice: 100 percent to charity and 100 percent to your heirs? What is wealth management all about if not efficiently transferring the most you can to your heirs?

What we described above uses a little-known strat-

egy of obtaining a tax-deductible \$15 million life insurance policy by donating the premium to your own charitable foundation. The tax savings of approximately 50 percent are gifted to your heirs or an irrevocable trust to purchase a \$7.5 million last-to-die or individual policy for your heirs.

After your death, your beneficiaries receive about \$7.5 million from the estate after taxes and \$7.5 million tax-free from the proceeds of the life insurance policy. Your favorite charity also receives \$15 million upon your death.

If you don't want your heirs to have to liquidate a business or sell assets to pay estate taxes, consider a wealth replacement trust. A business woman with a \$22 million company, a \$3 million retirement plan and a \$2 million home could lose well over 50 percent of her net worth to estate taxes and income taxes.

A large chunk of those taxes are due soon after death. If the beneficiaries wanted to hold onto the business and the home, they would need to come up with well over \$13 million to pay the taxes. Without a wealth replacement trust to pay those taxes, they may be forced to give up the business through a fire sale.

If your estate is worth more than \$8 million, your maximum estate tax is more than 40 percent. Upon your death your retirement accounts (401K accounts, IRAs etc.) will need to be distributed to your heirs and will be taxed at their income tax brackets. If the heirs are employed, they could lose another 40 percent or more of these dollars due to income taxes.

In the end, you could lose 70 percent of your retirement account assets to Uncle Sam. The bottom line is taxes and tax strategies are complex. If you're worth more than \$8 million, it's probably time for you to plan beyond the living trust.

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