Price & Farrington's Estate and Tax Planning *Fast*Faxts

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Estate, Tax , Business and Wealth Planning for Advisors and Clients

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New Year's Considerations: *Changes, Errors and Procrastination*

Best Wishes for 2006!

It's a new year, time to *reorganize* (your garage or attic), *reevaluate* (your goals and use of time) and *reconnoiter* (i.e., secure useable intelligence to review and update) your estate planning. In most households, "spring cleaning" on many levels often begins in January, or at least that's when plans begin to be laid.

Changes: Inflation Adjustments for 2006.

In Revenue Procedure 2005-70, the Internal Revenue Service has announced more than three dozen infllation-adjusted tax items for tax years beginning in 2006, including increased personal exemptions and standard deductions, wider tax brackets and a larger annual gift tax exclusion. Here are a few items of particular interest in estate planning:

☑ The federal estate tax exclusion amount and the GST exemption increase to $2 million, while the gift tax exemption amount remains at $1 million.

☑ The Washington state estate tax exclusion amount increases to $2 million.

☑The top estate and gift tax rate decreases to 46%.

☑The annual gift tax exclusion increases to $12,000 for calendar year 2006, with the annual gift tax exclusion for gifts to a spouse who is not a U.S. citizen increasing to $120,000.

☑ Income tax rates for estates and trusts have been adjusted (*see box*).

Procrastination: Affluent People Lack Estate Plans

As we reported before (in our January, '05 *Fast*Faxts), according to a study cited in the Wall Street Journal, the wealthier you are the less likely you are to protect your assets through estate planning.

Will-lessness. About one in five affluent Americans—defined as those with at least $500,000 in investable assets— doesn't have a will. And get this: among individuals with $10 million or more in investable assets, about 43% don't have a will. (The survey of almost 800 wealthy Americans has a margin of error of plus or minus 4%).These findings contrast with a survey done last year by a legal publisher, Martindale-Hubble, showing that the higher a person's income, the more likely that person is to have a will. (Maybe there's a relevant distinction here between investable assets and income?)

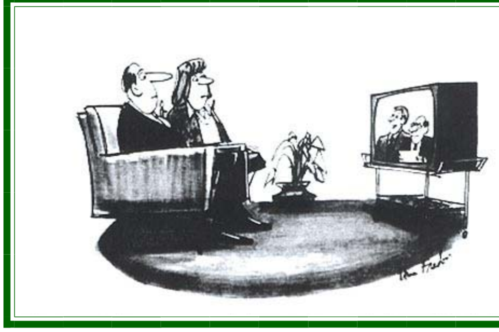
Dubious divvy. Overall, about 58% of more than 1,000 adults ages 18 and older lacked a will in 2004, according to the publisher. One result? Your assets will be divvied up by state law, possibly leaving your heirs in the lurch.

Procrastination may be behind wealthy individuals' lack of planning. But they may also be stymied by reluctance to talk about wealth-transfer issues and confused about how to deal with their complicated needs.

Even charitable inclinations can be a source of worry for families. More than half of those surveyed said they felt obligated to give to charity, but choosing where to donate was a real concern.

More and mum. All those surveyed felt they need to roughly double their assets to achieve long-term financial security. For example, those with $500,000 to $1 million wanted a median of $2.4 million, while those with at least $10 million estimated that they would need $18.1 million.

The wealthiest individuals also tend to be the most likely to keep mum about their wealth-transfer plans. About 58% haven't yet discussed wealth transfer with family members, and one in five who have these plans doesn't expect to broach the topic. At P&F we try to facilitate discussions between parents and children. We encourage them not to have



"Last week, the management of this station wished our viewers a Happy New Year. Here now is Mr. Clyde Wilmer with an opposing view."

2006 Income tax rates for estates and trusts are:	
If Taxable Income Is:	**The Tax Is:**
Not over $2,050	15% of the taxable income
Over $2,050 but not over $4,850	$307.50 plus 25% of the excess over $2,050
Over $4,850 but not over $7,400	$1,007.50 plus 28% of the excess over $4,850
Over $7,400 but not over $10,050	$1,721.50 plus 33% of the excess over $7,400
Over $10,050	$2,596 plus 35% of the excess over $10,050

My 2006 New Year Resolutions

I will be nicer.

I will exercise more.

I will lose weight.

I will be more organized.

I will see an estate planning attorney, finally.

the proverbial death-bed conversation; that's precisely the wrong time to do it.

Errors: Resolve to Get It Right

There is no lack of information and advice available on the topic of estate planning and wealth transfer strategies. The problem is that sometimes even reputable sources of information don't get it right, passing along information to advisors and clients that is misleading or just dead wrong. Faulty information provided to advisors is even more dangerous—in addition to inexcusable—because they rely on it to advise their clients.

Two recent examples. In perusing the December, 2005 issues of two periodicals which are regularly read by financial and insurance advisors, we found errors in explaining how a charitable remainder trust (CRT) works.

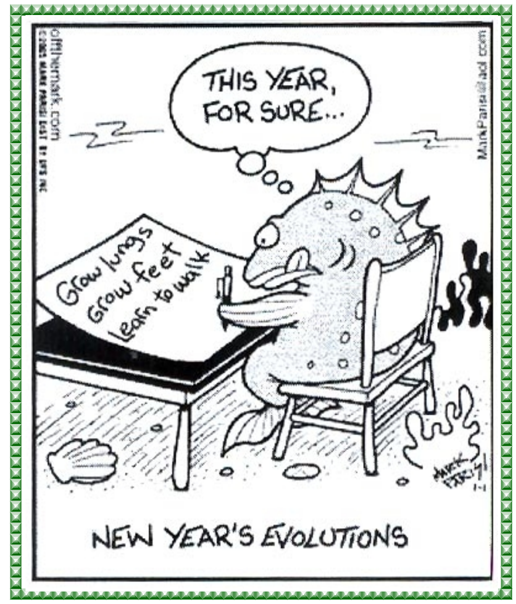
1. In *Advisor Today* magazine (December, 2005), in an article entitled "Cultivating Charitable Clients", contributing writer Lisa Wahlgren writes: In using a CRT, "the donor can take an income tax deduction on the fair market value of the transferred asset". Wrong. The donor of an inter vivos (lifetime) CRT is entitled to a federal income tax charitable deduction equal to *the present value of the remainder interest* which will eventually go to the charitable beneficiary at the end of the trust term.

She goes on to say that the donor benefits by "eliminating capital gains taxes on an asset [transferred to the trust] that produces lifetime income". Wrong again. Capital gains taxes are deferred, not eliminated, and will represent a portion of the taxable income distributed out of the CRT.

The writer combines — and compounds — her two errors by stating: "The transferred assets were *exempted* from capital-gains taxes, and the *full market value* of the gift to the CRT was tax-deductible". Double wrong.

2. In *Wealth Management* magazine (December, 2005), in an article entitled "Wealth Management Made Simple: A Primer on Key Concepts When Dealing With High-Net-Worth Clients", contributing writer Rebecca McReynolds states: "A private business owner may set up a revocable living trust to shelter personal family assets from corporate liabilities". Huh? A revocable living trust, while a valuable estate planning tool, doesn't "shelter"personal family assets from anything. Personal assets held in a living trust are sheltered from liability arising out of the owner's business activity only so long as the activity takes place in a properly structured business entity.

The Relationship Solution. What's the moral? It's the importance of relationships. Always have a broad



range of resources available to you.This should include an experienced, trustworthy estate and asset protection planning attorney who you feel comfortable working with and who makes him/herself available to answer your questions. You and your clients will be very well served by this relationship.

Resolutions & Aging

A New Year's resolution is something that goes in one year and out the other.

Making New Year's resolutions is like holding onto a hot coal. It takes courage to try it, but it feels so good when you drop it.

He made a New Year's resolution to be kind, considerate and nice. Then he decided, nah, he'd rather be himself.

My grandfather got a new hearing aid last week and he showed it to me. I asked, "What kind is it?" He answered, "A quarter to three".

Three old men, hard of hearing, taking a walk one fine March day: One remarked to the other, "Windy, ain't it?" No," the second man replied, "it's Thursday." The third man chimed in, "So am I. Let's have a Coke."

Although quality legal documents and software are needed as a foundation on which to build a client's estate plan, the documents are nothing more than the nails and lumber a contractor would use to build a house. The real quality and value of the house—or estate plan—is more in the engineering and architectural work than in the mechanical structuring. The greatest value and service provided in building a home or an estate plan is in the customization. ■

We wish you good planning!
Let us know how we can help.