Estate Planning *Fast* Faxts

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Estate, Tax and Family Wealth Preservation Planning For Advisors

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GIFTING STRATEGIES
Giving the Family an Effective Estate Plan

Familiarity with gifting strategies offers you numerous opportunities to take the lead in helping your clients realize gift and estate tax savings.

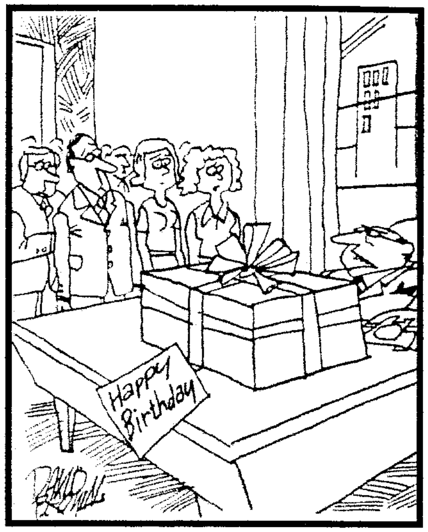
The Code provides three significant protections from gift & estate taxes: the unlimited marital deduction; the $10,000 annual exclusion (indexed for inflation); and the applicable credit amount (effectively exempting $650,000 from gift and estate taxes in 1999).

Of importance to your clients' gift-giving incentives and strategies is this: the gift tax is levied on the *net* taxable gift while the estate tax is levied on the *gross* estate. Thus, gifts face a lower effective tax burden than bequests.

To illustrate: Assume an individual makes a gift of $20,000 to one donee. In 1999, if the donor had not made cumulative lifetime gifts of $650,000 he would pay no tax on the incremental $10,000 gift. If the donor's previous lifetime taxable gifts exceed the gift tax threshold, he owes gift tax, e.g., if the donor had made taxable gifts totaling $650,000 before 1999, and makes a $20,000 gift this year, he would pay a gift tax of $3700 on the $10,000 taxable portion of the 1999 gift (since his marginal estate and gift tax rate under IRC Sec. 2001 is 37%). Thus, the total cost of the $10,000 taxable gift is $13,700.

If, instead, the donor dies and bequeaths the $13,700 to the same person, the tax liability is $5,069 (37% x $13,700), so the recipient nets only $8631 after estate taxes. This is almost 15% *less* than the $10,000 he received after gift taxes. Moral: tax-*exclusive* gifts are cheaper than tax-*inclusive* bequests.

Strategies: (1) Encourage your clients to begin a systematic program of tax-exempt annual exclusion gifting (up to $20,000 per year per donee if spouses "split" the gift); (2) advise your clients to make taxable *gifts* to reduce their estates and to enjoy a lower effective marginal tax rate than *bequests*. Charitable gifts will also provide your clients an *income* tax deduction; (3) have your clients make use of their gift and estate tax credits sooner rather than later, while the credit has a larger real value. *Earlier* transfers avoid higher marginal tax rates which result from asset inflation, minimizing gift and estate taxes your clients pay; (4) help your clients *leverage* their gifts through life insurance, discounting, trusts and other techniques.



"Thank you. Now get back to work."

If your clients need help designing and implementing a gifting program for family wealth transfer or you have questions about this or any other planning issue, please give us a call. Our firm can serve as a resource for you to strengthen your relationships and credibility with your clients.

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A thought for August: "There is a big difference between free speech and cheap talk."

An invitation to you and your clients! Visit us on our *Estate Planning Learning Center* web site at: www.estateplanning.com/pricefarr.

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Call us for copies of our Spring/Summer client newsletter: "Estate Planning Briefs"

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