

# Estate Planning

## Fast Faxes

July '99

Estate, Tax and Family Wealth Preservation Planning For Advisors

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### STOCK OPTIONS

#### Big Tax Opportunities...Big Tax Traps

Many of the clients all of us serve in the Northwest have a substantial amount of their wealth tied up in stock options. Those clients desperately need competent advice on effective planning strategies available to them for their stock options other than the old standby, "sell and pay the tax".

Most holders of stock options will exercise the option, sell the stock and pay Uncle Sam at the maximum federal income tax rate of 39.6%. There are alternatives, though. One possible strategy is to exercise the option when granted, recognize any income for tax purposes and then hold onto the stock. When it is sold, any future appreciation in the value of the stock is taxed at a maximum capital gains rate of 20%, cutting your client's tax bill in half.

For example: assume your client is granted 1,000 options at a strike price of 6 cents per share and immediately exercises those options, costing \$60.00. The stock rises to \$100.00 per share and your client then sells the stock. Your client would realize a gain of \$99,940 and pay a 20% capital gains tax, or approximately \$20,000.00. If your client waited and exercised the

options at \$100.00 per share and then sold the stock, your client would realize the same gain but pay almost \$40,000.00 in income tax.

Another strategy is designed to cut gift and estate tax bills, which decrease the amount a client can pass to heirs by as much as 55%. Some companies allow employees to gift stock options to their family members, which removes the appreciation from the employee's estate and avoids a substantial estate tax. Don't sweat the cost-basis issue; paying a 20% capital gains tax at the time of sale beats your estate paying a 37-55% estate tax.

At Price & Farrington, we believe that the key to successful client-based estate planning is developing a collaborative effort among all of the advisors. Each professional – lawyer, accountant, insurance advisor and financial planner – plays an important role in the estate planning process. Properly structuring the sale of your client's stock options is an example of an area ripe for the team approach. As a vital member of the team, it is in your and your clients' best interests to choose your teammates carefully.

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



If you have successful clients who need help negotiating the stock option minefield and you have questions about this or any other planning issue, please give us a call. We would enjoy serving as a resource to help you strengthen your relationship and credibility with your clients.

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A thought for July: "We have two ears and one mouth, so we should listen twice as much as we talk."

**In the dark about  
planning your estate?**

Price & Farrington [www.estateplanning.com/pricefarr](http://www.estateplanning.com/pricefarr)  
AN ESTATE PLANNING LAW PRACTICE 425-451-3583

An invitation to you and your clients! Visit us on our *Estate Planning Learning Center* web site at: [www.estateplanning.com/pricefarr](http://www.estateplanning.com/pricefarr). Our site includes several slide presentations, Frequently Asked Questions, informative estate planning articles and an Estate Tax Calculator. Enjoy!

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