

Wealthy Middlesex County Surpasses Fairfield

In the most recent Census figures, Middlesex County surpassed Fairfield County with the highest annual median household income in Connecticut. So the next time you think that estate taxes only affect the wealthy people in Fairfield County, think again!

While it is true that the federal estate tax exemption continues to rise—\$2 million in 2006 - 2008, \$3.5 million in 2009, unlimited in 2010—it is also scheduled to fall to \$675,000 per person in 2011. What this means is that if you pass away in 2006 and the value of your assets exceeds \$2 million, your loved ones will have to pay estate taxes to the federal government—at a rate of 46%! Before you laugh off the likelihood that your assets could possibly total \$2 million, remember what the recent Census said. Then take a pencil and paper and jot down your major assets. You may be surprised. Don't forget to include that life insurance. Even though you can't use it during your lifetime, it is a taxable asset upon your death. For a quick guide, see below.

If you find that your assets do exceed the \$2 million exemption level, there are ways to minimize or, in some cases, eliminate estate taxes. One way is to truly take advantage of your estate tax exemption. Many married couples have simple "I love you" Wills that state, "I give everything to my spouse." Now let's step back for a moment and recall the estate valuation calculation you just did. Did you divide the final figure by 2 because 50% of the estate is owned by your spouse? Or did you not count your spouse's life insurance and retirement plans? The problem with simple "I love you" Wills is that the surviving spouse ends up with the entire estate in his or her name. So when you're determining the value of your estate, you need to calculate how much the entire estate is worth because that's what the survivor of you will end up with if you have simple Wills. To truly take advantage of your estate tax exemption, you have to leave it to someone other than your spouse (i.e., your children) or in a trust. Your spouse can be the beneficiary and even the Trustee of the trust, but as long as it has certain restrictions on his or her ability to use the trust funds, it will not be included as an asset in his or her estate. For a couple whose combined net worth is just under \$4 million, this type of estate tax planning can eliminate estate taxes. On the other hand, simple "I love you" Wills in a \$4 million estate will result in an estate tax bill of \$920,000 if both of you pass away anytime the next three years.

Now I know what you're thinking: nothing is going to happen to you and your spouse in the next three years. I hope you're right, but if you live for several more years, you may be in even more estate tax trouble. The exemption is currently scheduled to fall back to \$675,000 per person in 2011. Although it is unlikely that Congress will allow the exemption to fall that low, it is equally unlikely given the current budget crisis that Congress will completely eliminate estate taxes. And it may fall below the current \$2 million level.

As a resident of the wealthiest county in the wealthiest state in the country, you should take some time to really analyze your estate and, if you find that it is close to the current estate tax exemption level, consider doing some estate tax planning. For a couple thousand dollars, you could potentially save your loved ones hundreds of thousands.

ESTATE TAX ANALYSIS
Test Your Own Estate

Mary and Jim have been married for 15 years and have three children. Together, they have a monthly after-tax income of \$7000, which allows them to pay all of their monthly expenses, as well as put a modest amount toward their savings and retirement accounts each month. They own the following assets:

ASSET	VALUE	Examine Your Own Assets
House	\$400,000 (fair market value – mortgage)	
Checking Account	10,000	
Savings Account	50,000	
Retirement Account	350,000	
Mary's Employer-Sponsored Life Insurance, payable upon Mary's death	100,000	
Jim's Employer-Sponsored Life Insurance, payable upon Jim's death	200,000	
Individual Term Life Insurance Policy, payable upon Mary's death	500,000	
Individual Term Life Insurance Policy, payable upon Jim's death	500,000	
TOTAL	\$2,110,000	

Jim and Mary do not think they are wealthy enough to have to worry about estate taxes, plus, they heard that if they leave all of their assets to each other, then there are no estate taxes due. Should Jim and Mary worry about estate taxes?

YES!!!! Effective January 1, 2006, the federal estate tax exemption is \$2,000,000. This means that everyone is entitled to give a total of \$2,000,000 to others upon death ESTATE TAX FREE.

Mary and Jim are correct that you can also pass an unlimited amount of money to your spouse ESTATE TAX FREE. The problem occurs when the surviving spouse dies and has the entire estate in his or her name. For example, if Jim died and left everything to Mary, Mary would then have an estate worth over \$2,000,000. If Mary then died when the exemption is still at \$2,000,000, the estate taxes owed by her estate would equal approximately \$50,000!!!!

To remedy this, Jim and Mary could set-up Trusts to hold their assets after their death. Then, when Jim passes away, his one-half of the estate, up to the exemption amount, would be held in his Trust. Jim and Mary could fashion the trusts so that the surviving spouse has use of the trust funds for his or her lifetime, but with certain limitations that cause the trust to not be included in the survivor's estate upon her death. Then, when Mary dies, her estate would be only one-half of the total assets (approximately \$1,000,000) and would pass entirely federal estate tax free to her beneficiaries under the current tax laws.

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