Dynamic Chiropractic

YOUR PRACTICE / BUSINESS

Believe It or Not Revisited

Stanley Greenfield, RHU

In the October 9, 1992 issue of Dynamic Chiropractic, I wrote an article, "Believe It or Not." It called attention to the estate tax liability that a lot of our families will face at our deaths. I pointed out that we really don't own anything. We just "lease" our estates, and at our deaths our families can exercise an option to "purchase" our estates, but it takes cash. What I was referring to was the federal estate tax that can take up to 55 percent of everything.

It seems that I really shook up a lot of you based on the amount of letters that I have received since that article. It still hasn't stopped. My mailman has even complained. It seems that I have hit on an area that most of you want additional information on. With that in mind, I picked up the telephone and called a good friend of mine in Washington, D.C., Jerry Rachelson, an attorney with a masters in tax law. He also is a certified public accountant (CPA) and a certified financial planner (CFP). Jerry and I have been friends for more years than we care to admit, and we have done many seminars together. Jerry will be a guest columnist in upcoming issues of my newsletter.

When I called Jerry, I ask him one question; "Jerry, what can a chiropractor do to save federal estate taxes? This was his answer:

"To understand how we can avoid or minimize state taxes, let's first look at how they are computed. This tax is a tax on your right to transfer wealth you have accumulated to your loved ones, and can amount to as much as 55 percent of the estate. There are three primary exceptions to the tax. The first one is called the 'annual exclusion.' This enables a person to make a gift to a child, grandchild, or other person up to $10,000 per year without incurring a transfer tax. The donor's spouse can also give another $10,000, for a total of $20,000 per year to each child, grandchild, or other person. Thus, one effective strategy to reduce federal estate taxes is to give annual gifts to reduce the amount of the estate which will be subject to federal estate taxes. Depending on the age of the children and grandchildren, I would recommend the gifts to be held in trust.

"The second exemption from federal estate taxes is what is called the 'unlimited marital deduction.' This means that a married couple may give each other an unlimited amount of wealth while they are both living and no estate tax will be incurred. Similarly, when the first spouse dies, that spouse may give an unlimited amount of wealth to the surviving spouse and not incur a federal estate tax. However, at the death of the surviving spouse, the entire remaining amount would then be subject to federal estate tax. This is how most families mistakenly arrange their estates; i.e., everything to the surviving spouse and then to the children.

"The third exemption is called the 'unified credit.' This means that everyone is given an exemption from estate taxes for the first $600,000 in one's estate. The problem is that in most estate plans, the $600,000 exemption is forfeited by the spouse who dies first, if everything is owned in the form of joint right-of- survivorship, or if the last will of the deceased spouse gives everything to the surviving spouse. The effect of this is that in a $1,20,000 estate, all assets are in the estate of the surviving spouse. When that spouse dies, they are only eligible for one $600,000 exemption. The result is that the remaining $600,000 will unnecessarily cause a federal estate tax of $235,000. Together with the cost of probate, approximately $273,000 is going to someone else other than your family.

"With proper planning, federal estate taxes can be avoided on the first $1,200,000 of an estate. By the way, this tax is due and payable nine months after the death of the surviving spouse. Stanley, I don't think I need to remind you that the best way to pay this tax is through the use of life insurance. The reason life insurance is used is that the premiums never equal the face amount of the policy. In fact, it would be unusual for premiums to be a cumulative 20 percent of the face value of the policy.

"It is critical to do proper planning before buying life insurance to cover estate taxes. Let's assume you are at the 50 percent federal estate tax bracket and need an additional $500,000 to pay your federal estate taxes. Most people do not realize that if you buy a life insurance policy for that amount, the entire amount is going to be added to your gross estate. The result is that 50 percent of the value of the insurance will go to Uncle Sam in additional estate taxes, and your family will only have $250,000 available to use for federal estate taxes. If you are at the 55 percent bracket, you only have $225,000 available. The correct way is to use an irrevocable life insurance trust to purchase the policy; the end result is that the entire $500,000 can be used for federal estate taxes."

We then went on to discuss the uses of other ways to use federal estate taxes and probate, the one item that can really erode an estate. I will try in future columns to give you some more information on these subjects. Jerry had a lot of good things to say about the use of living trusts, and he is what most would consider an expert on that topic. Jerry also does a lot of work in the area of asset protection. He will be covering that very subject in future issues of my newsletter. Yes, the very same newsletter that will be mentioned at the bottom of this article.

Your comments and inquiries may be directed to:

Stanley Greenfield, R.H.U.
12873 Huntley Manor Drive
Jacksonville, Florida 32216

Please include a self-addressed, stamped envelope. Thank you.

Editor's Note:

Further advice on finances is available through Mr. Greenfield's newsletter, Greenfield Chiropractic Financial News, #J-314-C, on the Preferred Reading and Viewing List, pages xx