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PREPARE NOW FOR MOVES ON THE ESTATE TAX

The nonstop discussion this year of health care reform and the economy crowded out discussion on the estate tax, which was scheduled to expire December 31. But as of this writing it appears that the estate tax will be continued at 2009 levels through 2010, which means that the 2010 top rate will likely be 45 percent and the exemption will be \$3.5 million per person.

For now, the Republican dream of killing the estate tax seems to be dead, at least through 2012 as federal spending continues to expand. That means it's a good time to talk to tax and financial experts about the best ways to pass your holdings to the next generation no matter what happens with the future of the "death tax."

If you suspect your estate or the estate of relatives you might inherit from may fall prey to the estate tax, it makes sense right now to enlist the help of experts. Assets may be expected to grow over time, and your estate may turn out to be larger than you may think. You should be talking to estate and tax specialists as well as financial advisors such as CERTIFIED FINANCIAL PLANNER™ professionals.

Here are some things to keep in mind as you prepare for those conversations:

Give during your lifetime: You can now give \$13,000 per calendar year per recipient without paying gift tax or affecting your 1 million dollar lifetime exemption. You can also pay someone's tuition or medical bills directly, or give to a charity, without paying gift tax on the amount, thereby reducing the size of your estate and your eventual estate tax bill after you die.

Check whether your state charges an estate tax: Roughly half of all states charge estate tax, and that's a recent thing. States previously received a slice of the federal estate tax, which no longer happens, so it's important to consider the state's impact when making an estate plan.

Think about a life insurance trust: Whether you need it for estate liquidity or for other purposes, an irrevocable life insurance trust can be created to keep the proceeds of the insurance out of your taxable estate. An added benefit is that such trusts may permit spousal access to the cash value of the policy. Yet note the word "irrevocable" – it means a decision that cannot be changed.

Know if your assets are expected to increase: A grantor-retained annuity trust, or GRAT, is an irrevocable trust that is popular among families with assets that are expected to increase, because such appreciation can be passed on to heirs with minimal tax consequences.

November 2009 — This column is produced by the Financial Planning Association (FPA), the membership organization for the financial planning community, and is provided by John Englin, CERTIFIED FINANCIAL PLANNER™. John is a local member of the FPA and is employed by Lincoln Savings Bank and LSB Financial.