

BASIC ESTATE PLANNING, PART 9: ESTATE TAXES

By Jim Silbernagel & Tony Jasen

Real Wealth® Radio Network

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(Note: The following is the Real Wealth® Radio Network's response to a question from Phil in Eau Claire.)

Question: Could you clarify how federal estate taxes are determined?

This is a pretty confusing part of the estate planning picture. Simply put, when both Mom and Dad are gone, the IRS requires that the value of all of their assets - everything from the table & chairs and forks & knives to the insurance policies, IRAs, savings bonds, CDs, automobiles and homes – be calculated. If the total amount exceeds \$2 million, every dollar over \$2 million is subject to federal estate taxes. In addition, the State of Wisconsin subjects every dollar over \$675,000 to state inheritance tax.

Now, you might be thinking, 'Well, that's not me!' We always challenge people to sit down and really calculate today's true fair market value of their worth. You might be surprised at the result. One asset often missed in the calculation is the death benefit from your life insurance policy(ies). If you add up your house and cars and assets and are worth \$1 million. And you carry \$1.5 million dollars of life insurance to replace your income if you pass away. Your estate is over \$2 million.

Some people think life insurance isn't taxable. Technically, that's correct. It's not income taxable but, if you own the policy, it is included in your estate value for federal estate or state inheritance taxes. We are passionate about this because the government has very simple rules and regulations to help you avoid or minimize estate and inheritance taxes. You know if you will be subject to estate taxes once you have figured out the size of your estate. If you are over that \$2 million threshold the government has a plan to tax every dollar over that threshold.

Starting in the year 2010 there is no more federal estate tax. But don't get overly excited. In the year 2011 the law "sunssets" and the exemption limit reduces back to \$1 million dollars. And, the top federal tax rate goes up to 55 percent. That means 55 cents on every dollar that you have over the exemption will go to the federal government. This tax is payable and due within nine months after death.

You might think that you have nothing to worry about because your estate is not over \$2 million dollars. But, when Congress passed the federal estate tax relief act, in order to "make up" the difference, they stopped refunding money from the collection of these taxes to the States. States like Wisconsin, that were very dependent on the revenues they were receiving from the federal government, brought back the STATE inheritance tax. In Wisconsin, we have a State inheritance tax on estates over \$675,000, not the \$2 million that the federal government exempts. These state taxes can be as high as 14 percent. Therefore, it is important to calculate the true fair market value of your estate. And, to consider not only the Federal estate tax impact but also the State inheritance tax impact to your heirs.

Basic estate plan documents can be designed to include language to help protect your estate from potential, inevitable estate or state inheritance tax. Married couples can prevent estate and inheritance taxes up to two times the regular levels mentioned earlier. Therefore, a married couple can literally have an estate for federal tax purposes up to \$2 million each, or a total of \$4 million, before any federal estate tax will apply and up to \$1,350,000 before any state inheritance tax will apply. It is important that you and the attorney designing your estate plan knows the value of your estate. And, remember that regardless of where your estate is today it can grow in value and the government can obviously change these rules and levels of taxation.

Remember, a team of *Real Wealth*® Advisors can easily assist you with your wills and trust and can guide you through the entire estate planning process. Be sure to work with a qualified attorney who has spent a lot of time working in the area of estate and family planning issues, rather than a general practitioner. A financial advisor can act as a quarterback to help you best take advantage of your individual financial circumstances.

About *Real Wealth*® Radio

Jim Silbernagel and **Tony Jasen** lead Wisconsin's only statewide, homegrown *Real Wealth*® Advisor Network and have been conducting their Financial Talk Show since 1990. They have garnered a reputation as down-to-earth financial professionals who look well beyond the obvious product-driven environment associated with Financial Planning to the *real* life issues of wealth. Their vision is to educate their listeners on the deeper issues of wealth management and its relationship with their life, specifically their stage in life, and to help people maximize life from *Real Wealth*®.

Ask for your free consultation today by calling toll free (877) 825-7579 or by visiting the *Real Wealth*® web site, www.realwealthradio.com or drop them a note at PO Box 445, Kewaskum, WI 53040. And don't forget to tune in *Real Wealth*® Radio with Jim and Tony on WBKV, AM 1470, every Friday from 3-4 or the first Friday of every month on WTKM, FM 104.9 and AM 1540, from 10-11am.

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