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November 12, 2007

THOUGHT YOU'D LIKE TO SEE THIS

THINGS YOU NEED TO KNOW ABOUT THE ANNUAL GIFT TAX EXCLUSION

The annual gift tax exclusion is one of the most simple, yet powerful, of all the tools available to the financially successful individual.

WHY THE ANNUAL EXCLUSION IS SO VERY IMPORTANT

The privilege of totally excluding gifts from taxation is an extremely valuable one. Gift tax rates are equal to estate tax rates — and those rates are — once the gift becomes taxable — high! The right to totally exclude a gift from such rates can be very advantageous.

An incredible amount of wealth can be shifted, gift tax free, through the use of the (currently) $12,000 exclusion.

The annual exclusion can be taken each year — for each gift — to each donee — with the number of potential donees virtually unlimited!

1. A 70 year old widower with four children and six married grandchildren (16 donees) could divest himself of $192,000 ($12,000 x 4) plus ($12,000 x 12) — each and every year for the rest of his life. Assuming a 50% combined state and federal estate tax bracket, each year's gifts save $96,000! In 10 years the donor will have given away $1,920,000 — saving $960,000! Remember, (a) no out of pocket tax cost has been incurred and (b) no exhaustion of the unified credit was necessary.

   But the illustration below shows that if the donor makes gifts for the remaining 16 years of his life expectancy, the amount of total gifts amounts to $3,072,000 with a potential estate tax savings of $1,536,000.

   But of course, that's not the whole story. If the donees invest the annual gifts at merely 4% after tax, the total value of the gifts at that time will be $4,190,310 — resulting in a potential estate tax savings of $2,095,155! And consider how much more there would be if all or a substantial portion of each year's gift was used by each donee to purchase life insurance on their parent's life.

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2. A married couple could double the amount of annually excludable gifts made to third persons such as children — from $12,000 to $24,000 — each — by "splitting" the gift. In other words, if the non-donor spouse consents to the gift, it may be treated as if each spouse made one-half of the gift. This enables the spouse owning most of the property to take advantage of the other spouse's annual exclusion. In the example above, a married couple could — over a 16 year period (the 70 year old— older donor's life expectancy) gave away $6,144,000 with a **potential estate tax savings of $3,072,000!** The projected value of those gifts — if the donees enjoy a 4% after tax return on the gifts — would be $8,380,620 — resulting in a potential estate tax savings of $4,190,000! (A 50 year old donor with 10 donees making $12,000 annual gifts who splits the gifts with her husband and makes those gifts in a planned program for life (expectancy 33.1 years) would give away $8,160,000 with a **potential estate tax savings of $4,080,000**. But if the donees invest at 4% net after-tax, the money will grow to $16,765,898 over the 50 year old donor's life expectancy — resulting in potential estate tax savings assuming a 50% combined state and federal rate — of $8,382,949! Again, if all or a significant portion was invested in life insurance on either or both parent's lives, an astounding amount of financial security could be provided — estate tax free — to future generations. (**To split gifts both spouses need to write checks of a gift tax return must be filed [even thought no tax will be due] where gift splitting is elected on the return.)**

3. Annual exclusion gifts can be made even on the donor's deathbed — and if made in the form of cash, securities, real estate, or even art or collectibles, will not be brought back into the donor's gross estate. Such gifts will not be brought back into the donor's estate — regardless of how close to death they were made — or the reasons motivating the gift.

4. Annual exclusion gifts do not form part of the base used to compute the rate of tax when calculating federal estate taxes, i.e., they are not considered "adjusted taxable gifts." So, unlike taxable gifts, annual exclusion gifts are not added back to push up the rate the remaining estate is taxed. This means that annual exclusion gifts have no adverse impact on estate tax costs.

5. In the right situation, it may be possible to leverage the annual exclusion gift by using a properly formed and managed family limited partnership or limited liability company as the asset gifted. This can in sum cases increase the effective gift and estate tax free wealth transfer by as much as 40% or more. In other words for every $12,000 annual exclusion gift can transfer over $17,000 of wealth.

THE BOTTOM LINE

The annual exclusion is a highly useful and significant estate planning tool that can be used to minimize or eliminate the cost of shifting an estate from one generation to another. Through careful planning, it is possible to obtain an annual exclusion — even for gifts in trust — and to leverage the overall advantage if the beneficiaries or a trustee on their behalf uses all or a significant portion of each year's annual exclusion gifts to purchase life insurance on the life of either (or both) the grantor and/or the grantor's spouse.

AS ALWAYS, PLEASE FEEL FREE TO CALL ABOUT THE ANNUAL EXCLUSION — OR ANY OTHER CONCERN YOU HAVE PERTAINING TO YOUR — OR YOUR FAMILY OR BUSINESS' FINANCIAL SECURITY.

Sincerely,

Hank

Henry Weatherby