

GOLDEN BULLETS

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THOUGHT YOU'D LIKE TO SEE THIS:

One of the most powerful of all estate planning tools is also one of the most simple. It's based on the concept of "Dividing and Conquering" the federal estate and income tax.

How do you **DIVIDE AND CONQUER**? Write down the phrase, "Shifting wealth and Splitting income".

By shifting wealth to other family members, it's no longer in your estate — and the IRS can't tax it. And since you no longer own it, as it grows in value, the Service can't tax the appreciation in your estate either!

And once it belongs to family members aged 14 and over, the income that asset produces is no longer taxed to you — at your bracket; it's taxed to your child, niece, nephew, or grandchild and at his, her, or their (assumedly) much lower brackets.

So the advantages of judicious regular lifetime gifts of appreciating and/or income producing property to family members can add up! And it's easier and less taxing then ever to shift wealth and split income. Why? Because as of January 1 of 2006, you can now give an unlimited number of recipients (tax folks call them "donees") as much as \$12,000 a year — every year — as long as you and they are alive — and your gifts will be **GIFT TAX FREE!** (The person who receives your gift does not have to report the gift to the IRS or pay gift or income tax on its value.)

And if you are married, you can **DOUBLE** the **GIFT TAX FREE** gift. That means a married couple can give up to \$24,000 a year — to as many family members as you'd like! Think about it. If you have two married children who each have two married children, that's four donees (six if you count your children's spouses — which you can!). So \$24,000 x 6 equals \$144,000 a year.

If you are 50 years old, you have a life expectancy of about 33 years. That means you and your spouse can make almost \$5,000,000 in gifts — and never pay a nickel in gift taxes. And if you are in a combined state and federal estate tax bracket of 46% when you die, the money you've saved your children (and that will not go to the IRS) will exceed \$2,000,000! In fact, if the children invest that money at only 4 percent, net after taxes, it will have grown by that time to over \$10,000,000!

What can you give? Just about anything. Permissible gifts include money and property (stocks, bonds, real estate, art, etc.), including the use of property without expecting to receive something of equal value in return. Or you can sell something to family members at less than its value or make an interest-free or reduced-interest loan. These are all permissible gifts.

But wait, it gets better! Under current tax rules, you can give any or all of the following each year - IN ADDITION to the \$12,000 gifts described above - and pay NO GIFT TAXES:

- Tuition Expenses that you pay directly to an educational institution for someone's benefit, and
- Medical Expenses that you pay directly to a medical institution for someone's benefit, and
- Gifts to your Spouse, and
- Gifts to Charities

One last point. Although most people will be making these gifts to “family members,” the law doesn't limit or require the gifts be made to relatives; you can make these same gift tax free gifts in 2006 to unrelated friends!

AS ALWAYS, FEEL FREE TO CALL TO DISCUSS THESE AND OTHER ESTATE AND FINANCIAL PLANNING OPPORTUNITIES!

IF YOU PREFER TO RECEIVE “GOLDEN BULLETS” BY EMAIL, PLEASE SEND A NOTE TO ME AT: rwilson@fraserlawfirm.com. Thanks.

“Golden Bullets” is provided as a source of general information about current developments in the practice of estate planning and related topics. If you have questions regarding this issue or estate planning in general, please contact me prior to taking action.