# 8 ESTATE PLANNING STRATEGIES YOU SHOULD KNOW

Despite the scheduled repeal of estate taxes by 2010 (and scheduled to reappear in 2011), many estate planning strategies, including tax reduction strategies, are still needed. Here are eight estate-planning strategies you should know.

**1. A will.** A valid will stipulates to whom you want your assets distributed. Without a will, the laws of the state where you reside will determine for you.

**2. A living will, medical power of attorney and financial power of attorney.** A living will stipulates what life-saving medical procedures you want or don't want in the event you are physically or mentally incapacitated. A medical power of attorney appoints a person the power to make medical decisions on your behalf, while a financial power of attorney states who can make financial decisions on your behalf.

**3. The annual gift-tax exclusion.** One of the most basic and inexpensive strategies for saving estate taxes, the gift-tax exclusion allows you to give away, tax free, $11,000 a year (indexed for inflation) to each beneficiary you choose. Thus, you and your spouse could jointly give away $22,000 annually to each of your children, grandchildren or anyone else without incurring a gift tax.

**4. Medical and tuition payments.** A person can make unlimited gift-tax-free payments for another's tuition or medical bills without it counting against the payer's lifetime gift-tax exclusion, as long as the payments are made directly to the educational or medical institution. A grandparent, for example, could pay a $20,000 annual tuition bill to a college for a grandchild gift-tax free, and then give directly to the child up to another $11,000 a year for non-tuition college expenses, taking advantage of the annual gift-tax exclusion.

**5. Lifetime giving.** Assuming you have sufficient funds to live on, lifetime gifting often can better reduce your estate tax liability than waiting until death to pass on your estate. One advantage of lifetime gifting is that you can remove appreciating assets, such as common stock, from your estate. The second advantage is that if your gift is taxable (you can give away up to $1 million gift-tax free during your lifetime), the

money you use to pay the gift tax is also removed from your estate, thus reducing any future estate taxes.

**6. By-pass trust or credit-shelter trusts.** For people who die in 2002 or 2003, the first $1 million of their estate is exempt from estate tax (assuming they haven't used up some or all of their exemption amount through taxable lifetime gifts). That exemption amount gradually rises to $3.5 million by 2009. A spouse (with the exception of a foreign-citizen spouse) can pass his or her entire estate tax free to the surviving spouse. But because the surviving spouse can't take use the deceased's exemption amount at his or her subsequent death, this "wastes" the deceased's exemption amount.

Often it's better for the first-to-die spouse to pass his or her exemption amount to a credit shelter trust. The surviving spouse can use income generated by the trust assets, and at the survivor's death, the assets pass to the trust's beneficiaries tax free. In addition, the estate of the second spouse also saves the additional exemption amount. Thus, for example, if both spouses died in 2003, they could exempt $2 million between them instead of only $1 million.

**7. Irrevocable life insurance trust.** The proceeds of a life insurance policy held in your estate, perhaps used to pay for estate taxes, is subject to estate tax. But if an irrevocable life insurance trust owns the policy, the proceeds will not be included in your estate. You may donate annually to the trust an amount equal to the premiums to pay for the policy. For these donations to qualify for the annual gift-tax exclusion, you must use a complicated strategy called *Crummey* letters.

**8. Charitable remainder trust.** The donor transfers property to the CRT, receiving an immediate income-tax deduction and avoiding any capital gains taxes on donated appreciated property. In return, the donor receives an income stream generated by the trust assets either for a specified time or for life. At the end of that period, the charitable organization inherits the trust assets.



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