

## LEGACY SOCIETY

### REDUCING ESTATE SHRINKAGE WHILE ASSISTING HOMELESS SOLUTIONS, INC.

Can a gift to Homeless Solutions, Inc. from your estate plan actually *increase* the resources available to your family and other beneficiaries? The answer may well be yes.

Mr. P has been a patriotic saver all his life and is proud that he has accumulated \$230,000 of U.S. savings bonds. He plans to leave the bonds to his daughter, to provide for her security, but was surprised to learn that she will have to pay substantial income taxes on every bond she cashes. (Mr. P had elected not to report the interest accumulating on the bonds on his annual tax returns.)

Mr. P instead decides to leave the bonds to a tax-exempt charitable remainder trust in his will. The trustee

can cash the bonds without owing income tax, reinvest the proceeds and pay his daughter a good income for life, and support the ongoing operations of HSI when the trust comes to an end.

Friends who face heavy federal estate taxes might consider a trust that makes payments to Homeless Solutions, Inc. for several years and then distributes all the trust assets to family members. This arrangement, known as a charitable lead trust, may eliminate or drastically reduce taxes on even the largest estates and reduce the need for "estate liquidity."

Are any of these ideas of interest? If so, please contact our office, or simply return the enclosed card.

### AN ESSENTIAL GUIDE TO ESTATE BUILDING AND CONSERVATION

This issue of our Legacy Society is primarily about avoiding "estate shrinkage," which most people associate with the taxes, debts and other costs that must be paid after a person's death.

Good estate planning, however, should also include an ongoing program of estate building and estate conservation that involves income tax planning, investment planning, retirement planning and careful planning of your support for HSI and other important organizations.

Homeless Solutions, Inc. would like to offer you a free

16-page booklet, *Tax and Financial Planning Techniques*, that covers all these topics. Of special interest is a "scorecard" that lets you rate your current financial plan and suggests areas for improvement. Our new booklet also includes more information about federal estate tax planning and presents creative, tax-wise ideas for including Homeless Solutions, Inc. in your will or other estate plans.

You can receive your copy of *Tax and Financial Planning Techniques* simply by returning the enclosed card. There is, of course, no obligation.

Homeless  
Solutions  
A HAND UP  
NOT A HAND OUT

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This publication is prepared for the information of our friends and donors and illustrates general concepts and ideas in tax and estate planning. The articles are not intended as legal services or advice. You should, accordingly, consult with competent tax and legal professionals as to the applicability of any items to your personal situation.

## ESTATE SHRINKAGE

PROTECTING AGAINST



Homeless  
Solutions  
A HAND UP  
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**HOW CAN YOU SHRINK-PROOF YOUR ESTATE?**

“Estate shrinkage” can be a serious problem for many American families. We’re talking about the depletion of assets that can occur upon a person’s death.

For illustration, let’s look at the estate of Karen Carpenter, popular 1970s vocalist. Miss Carpenter’s gross estate was valued at \$6,110,476, but it was reduced by the following costs:

Debts.....	\$ 669,756
Attorney’s fees .....	167,500
Executor’s fee.....	150,000
Estimated federal estate tax.....	2,549,731
<b>Total Costs.....</b>	<b>\$3,536,987</b>

You can see that Miss Carpenter’s estate “shrank” by 58%. Not only did her heirs lose more than \$3.5 million, the estate also faced the task of finding cash to pay for those expenses. Probate records indicated cash in the estate of just \$2,721. Such shortfalls in “estate liquidity” often require the forced sale of estate assets.

**Strategies for Estate Shrinkage**

How can you protect your beneficiaries from losses in your estate? Some shrinkage is inevitable, but you can cushion its impact.

❑ **Calculate the shrinkage.** Ask your advisers to figure your estate settlement costs – taxes, administration expenses and debts – as if you were to die today.

❑ **Plan for estate liquidity.** Arrange for a reservoir of cash (or assets readily convertible to cash) to pay the expenses that will occur. Many estates have had to sell assets at “fire sale” prices to cover taxes, debts and other costs. Strategies could involve a savings program, investments, life insurance or a combination of all three.

❑ **Plan for the orderly transition of any business interests.** Consider a buy-sell agreement with partners or shareholders that will keep the business intact, preserve its value and provide cash payments to your family.

❑ **Look for ways to reduce shrinkage.** You can protect your estate (or that of a surviving spouse) against federal or state “death taxes” through lifetime gifts to family, trusts designed to reduce taxes and probate costs, and use of income-tax-burdened assets (such as IRAs and savings bonds) to satisfy charitable estate gifts.

**FEDERAL ESTATE TAXES MAY BE A CONCERN**

Will your estate be faced with a federal estate tax liability at your death? If so, there are many ways that you and your advisers can act now to minimize the impact of this tax.

The federal estate tax applies to the fair market value of everything you own at the time of your death. You should start by figuring out what the approximate value of your estate might be.

In using the following form, the first step is to value your home, your other real property and all other assets

you own at fair market value – the price at which the property could reasonably be sold.

As you continue through the form you may be surprised to see that the full face value of your life insurance proceeds are generally subject to the federal estate tax if you have any ownership rights in the policies. It may also surprise you that the full value of all property you own jointly with someone other than your spouse (not just a part of that total value) can be included in your gross estate. For a quick

estimate, include the full value; include half of it if the co-owner is your spouse.

IRAs, deferred compensation and many other employee benefits may also be part of your gross estate. “Personal property” includes cars, furniture, stamp and coin collections, paintings, antiques, china, silver, etc.

**Will Your Estate Be “Sheltered”?**

If you added up all your assets and discovered that they are worth \$3.5 million or less, then your estate should be sheltered by the estate tax credit, which exempts estates under \$3.5 million after 2008. Amounts over \$3.5 million are taxed at a 45% rate. Note that lifetime taxable gifts you have made to others will come back into your estate, for tax purposes, which may elevate your estate above the sheltered amount.

**Two Important Deductions**

If you are married, your estate can qualify for the marital deduction. This deduction is the value of any property left to your surviving spouse. In short, your entire

estate could pass to your surviving spouse free of any federal estate tax. But you may need to plan against a substantial tax at the death of your surviving spouse, since he or she won’t have the protection of the marital deduction (absent remarriage). Then too, there may be good, practical reasons not to leave everything to a surviving spouse. There is one other important deduction: a full deduction for any bequest made for our benefit or to another qualified organization.

**What about State “Death Taxes”?**

Even if you won’t owe federal estate tax, your estate may face state “death taxes.” Some states impose inheritance taxes, in which heirs are divided into beneficiary classes. Those with the closest relationship typically receive larger exemptions and pay tax at lower rates. Several states impose an estate tax similar to the federal estate tax, but on estates of much smaller size. Ask your advisers about the state death tax situation in any state where you own property.

COMPUTING YOUR TAXABLE ESTATE	
Your home	\$ _____
Other real property	\$ _____
Life insurance	\$ _____
Jointly owned property	\$ _____
Retirement accounts	\$ _____
Other employee benefits	\$ _____
Stocks and bonds	\$ _____
Bank accounts and cash	\$ _____
Business interests	\$ _____
Personal property	\$ _____
Other	\$ _____
Gifts that required gift tax returns	\$ _____
<b>Total assets (gross estate)</b>	<b>\$ _____</b>