

## BASIC STEPS IN ESTATE PLANNING

*You can ease the burden on your family by completing an Estate Plan.*

### We will help you:

1. Make a complete and accurate inventory of all assets and their value, including the fair market value.
2. Determine the form of ownership of each asset; understanding its effect on transfer of property at death.
3. Verify beneficiary designations on life insurance policies and on retirement accounts.
4. Estimate the size of the estate to determine whether estate tax planning is needed.
5. Decide whether certain family members or assets need special protection (minor children, adults with special needs, family business).
6. Select beneficiaries and determine what provisions should be made for each.
7. Determine how financial and health care decisions will be made in the case of illness or disability.
8. Determine how health care will be funded.
9. Estimate the cost of alternative estate planning methods that will meet the goals.
10. Select and implement the estate plan.
11. Review law changes with you regularly, as well as help you revise the plan as family circumstances change.

## KANSAS ESTATE TAX

The filing threshold for the Kansas Estate Tax return is \$1 million. The tax brackets for taxable estates are as follows.

| <u>Year</u> | <u>Taxable Estate Value</u> | <u>Tax Bracket</u> |
|-------------|-----------------------------|--------------------|
| 2007        | \$1 million to \$2 million  | 3%                 |
|             | \$2 million to \$5 million  | 6%                 |
|             | \$5 million to \$10 million | 8%                 |
|             | > \$10 million              | 10%                |
| 2008        | \$1 million to \$2 million  | 1%                 |
|             | \$2 million to \$5 million  | 2%                 |
|             | \$5 million to \$10 million | 5%                 |
|             | > \$10 million              | 7%                 |
| 2009        | \$1 million to \$2 million  | .5%                |
|             | \$2 million to \$5 million  | 1%                 |
|             | \$5 million to \$10 million | 2%                 |
|             | > \$10 million              | 3%                 |

Estates after 2009 have no Kansas Estate Tax

 Sink, Gillmore & Gordon LLP  
PUBLIC ACCOUNTANTS  
Commerce Bank Tower  
727 Poyntz Avenue  
Manhattan, KS 66502  
(785) 537-0190



# GIFT & ESTATE TAX PLANNING

 Sink, Gillmore & Gordon LLP  
PUBLIC ACCOUNTANTS  
(785) 537-0190

## ESTATE TAX GRADUALLY REPEALED

A number of complicated, but generally favorable, changes were made to the federal estate and gift tax rules. The key point is that the estate tax is scheduled for complete repeal in 2010 while the gift tax is being retained. Between now and then the estate tax will continue to exist, but with the expanded exemption amounts listed below. (In 2010 the maximum gift tax rate will drop to the highest individual income tax rate.)

|             | Estate Tax Applicable Exclusion Amount | Highest Estate and Gift Tax Rate               | Estate Tax Due, based on a \$10,000,000 Estate |
|-------------|--|--|--|
| <b>2007</b> | \$2 million                            | 45%  | \$3,600,000                                    |
| <b>2008</b> | \$2 million                            | 45%  | \$3,600,000                                    |
| <b>2009</b> | \$3.5 million                          | 45%  | \$2,925,000                                    |
| <b>2010</b> | N/A (taxes repealed)                   | Top individual income tax rate (gift tax only) | 0  |
| <b>2011</b> | \$1 million                            | 55%  | \$4,795,000                                    |

*Most Estate Tax experts expect significant changes in the Estate Tax Law in the next few years. It is very important that you review your estate plan every time the law is changed.*

## SPECIAL CONSIDERATIONS FOR ESTATE PLANNING

**Individuals or couples with minor children:** Individuals with minor children should nominate a guardian to care for their children. Even individuals with trust-based estate plans should have wills nominating guardians for their minor children.

**Anyone with minor heirs or beneficiaries:** If a minor is given property by will or as the direct beneficiary of an insurance policy or other asset, the minor receives the property when he or she reaches adulthood, usually 18. A trust can be included in a will to delay the receipt of an inheritance. Anyone leaving a sizeable amount to a minor child should consider this alternative.

**Married couples with estates over \$2 million:** Each spouse has separate estate tax exclusion (\$2 million in 2007-2008). When both exclusions are used, the couple can shield \$4 million (in 2007-2008) from estate tax. Couples who own all property jointly or whose wills leave all property to the survivor may miss the opportunity to use the tax credit of the first spouse to die. Ask us about Bypass Trusts to help alleviate this potential estate planning problem.

**Family businesses and farms:** Specialized estate planning is essential for taxpayers who own businesses they hope to transfer to their heirs as going-concerns. The valuation of family-owned business interests is generally a contentious issue between the heirs and the IRS. Planning prior to death may help lower the estate tax value of the business interests or allow part of the business to be transferred before death at an estate tax savings. Estate tax breaks are also available if family business interests are a significant part of a decedent's estate. Qualifying real property can be valued based on its actual use rather than its highest and best use. Estate tax can also be deferred for five years and paid over 10 annual installments at low interest rates.

## GIFT TAX EXCLUSION:

Although the Estate Tax Exclusion was increased in 2004, the Gift Tax Exclusion was **not** increased. The lifetime Gift Tax Exclusion remains at \$1,000,000. Gifts over \$1,000,000 are subject to Gift and Estate Tax with the **lowest** tax rate of 41%!

## ANNUAL GIFT TAX EXCLUSION:

**2007**                      **\$12,000**  
**2008**                      **\$12,000**

- You may give \$12,000 per person to any number of recipients in a calendar year without paying federal estate and gift tax.
- If a gift is over \$12,000, only the excess is a taxable gift.
- Unless gifts exceed \$12,000 to an individual, an IRS Form 709 Gift Tax Return is **not** required.
- Gifts of property, other than cash, might benefit from filing a gift tax return, even if the gift is less than \$12,000. Filing the return starts the Statute of Limitations for the IRS to challenge the value of a gift.