

# Money Matters

The Independent Press  
April 7, 2010

## Question of the Month: Is Estate Tax Repeal a Good Thing?

By Aaron Skloff

**Q:** The federal estate tax has been repealed for 2010. That's great news for everyone, right?

**A:** Wrong. In 2009, each person was provided a \$3.5 million federal estate tax exemption. For 2010, the federal estate tax has been repealed and replaced with a federal capital gains tax. The federal capital gains tax exemption for an estate is \$1.3 million. An estimated 40,000 heirs that would not have been affected in 2009, will be affected in 2010. That is not good news for everyone.

One solution to this problem is obtaining detailed records. In the case of stock, many investors accumulate a large number of shares through splits, dividend reinvestment and subsequent purchases. Obtaining detailed records can prove you have the correct cost basis and tax obligation, in the event of an audit.

Another solution is simply removing assets from your estate. The easiest solution is gifting. You can gift \$13,000 per year to as many people as you want, without incurring any reporting obligations or gift taxes.

There are also a host of trusts that remove assets from your estate, avoiding future estate taxes and capital gains taxes. Congress is well aware of these tools and is evaluating stricter guidelines for those who wait to implement these powerful tools. While Congress appears too busy to address this now, deadlines may be closer than you think.

State Estate Taxes. Lest we forget, state estate taxes are very much alive. Despite the temporary disappearance of federal estate taxes, many states have retained draconian state estate taxes. For example, New Jersey has a mere \$675,000 state estate tax exemption.

Things could get ugly in 2011. In 2011, the federal estate tax exemption returns with a relatively modest amount, \$1 million. To add insult to injury, the maximum federal estate tax rate jumps to an exorbitant 55%. This compares to 2009, when the federal estate tax exemption was \$3.5 million and the federal estate tax rate was 45%.

**Action Step:** Work closely with your estate attorney and financial advisor to establish an estate plan that maximizes current and future changes. Be sure to explore all estate and tax planning tools for your particular circumstance – no two people are the same.

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