

# Retirement Weekly

## ■ In this issue

### News in Brief

Federal Reserve Chairman Ben S. Bernanke warned this week that Americans may have to accept higher taxes or changes in cherished entitlements such as Medicare and Social Security if the nation is to avoid staggering budget deficits that threaten to choke off economic growth. (P. 3)

### Your Money

Health and Human Services Secretary Kathleen Sebelius this week cautioned consumers to watch out for scammers using the new health bill to try to defraud people. (P. 4)

### Question & Answer

Denise Appleby, founder of retirementdictionary.com, discusses whether there are state taxes due on distributions from a Roth IRA. (P. 9)



**Got questions?  
Get answers!**

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## No federal estate tax in 2010?

### Not great news for everyone

By Aaron Skloff, AIF, CFA, MBA

The federal estate tax has been repealed for 2010.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

Wrong. The problem: The federal estate tax has been replaced with a capital gains tax for 2010.

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 For 2010, the federal estate tax has been repealed and replaced with a federal capital gains tax.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 in 2010. That's bad news for everyone.

Let's look at an example to see what this means in dollars and cents.

Example 1. Mr. Jones leaves a \$9 million estate, \$7.8 million in other assets and \$1.2 million in stock. The stock has a cost basis of \$200,000. Had the heirs received the stock in 2009, they would have had a \$540,000 federal estate tax on the stock. In 2010, they will pay a federal capital gains tax of 15% on the \$1 million of appreciation (\$1.2 million - \$200,000 of cost basis), or \$150,000 on the sale of the stock. The heirs comparatively save \$390,000 in taxes. (Note: the \$1.3 million federal capital gains tax exemption was utilized with the other assets.)

Let's look at another example. Example 2. Mr. Smith has a \$3 million estate, \$1.8 million in other assets and \$1.2 million in stock. The stock has a cost basis of \$200,000. Had the heirs received the stock in 2009, they would have had no federal estate tax on the stock. In 2010, they will pay a federal capital gains tax of 15% on the \$1 million of appreciation, or \$150,000. The heirs comparatively lose \$150,000 in taxes.

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

(Continued on page 2)



(Continued from page 1)

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. Many states have estate tax exemptions that are drastically lower than both the former federal estate tax exemption and the current federal exemption for capital gains. With so many states running unprecedented deficits, those without state estate taxes may soon initiate them. 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 adviser 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. **RW**

About the author: Aaron Skloff, Accredited Investment Fiduciary and Chartered Financial Analyst is CEO of Skloff Financial Group.

### Looking for a retirement calculator?

If you're saving and investing for retirement or living in retirement, it's important that you get a handle on your income and expenses. Most software programs, however, fall far short of the mark according to a recent Society of Actuaries study. Not ESPlanner.

Developed by Prof. Laurence J. Kotlikoff of Boston University, ESPlanner was recently identified by Money magazine as the top personal finance software program available today.

What's so good about ESPlanner? Well, it doesn't ask you to plan for yourself. Instead, it determines your proper spending and saving targets. And it doesn't use crude rule-of-thumb replacement rates. Instead, it comes up with spending and saving targets that are tailor-made to your circumstances with the goal of providing each household member a stable living standard through time. For those already retired, ESPlanner gives you a realistic game plan for spending down your assets -- again, one that entails stability in your living standard. And whether you are working or retired, ESPlanner can help you safely raise your living standard and make better lifestyle decisions.

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