

ESTATE PLANNING ANALYSIS
For
John and Mary Demo

Our review of your estate planning explores the impact of taxes and estate settlement costs on the assets you intend to leave to your heirs.

The 1981 changes to the federal estate tax laws allow for an unlimited marital deduction. This means you may make an election to have your total estate pass to Mary (assuming you die first) without incurring any federal estate tax liability. However, when Mary dies the entire estate, less any exemption, becomes subject to taxes.

One method of reducing this liability is to transfer some of your assets into a Credit Trust, thus significantly reducing the estate tax. Specifically, assuming John dies first in 2015, your gross estate will total \$1,128,394. This figure includes one half of all your joint and community property plus all your separate property.

Life insurance in the amount of \$100,000 is also included.

From the gross estate, \$45,150 is subtracted for debts and \$22,568 for expenses, leaving an adjusted gross estate of \$1,052,676.

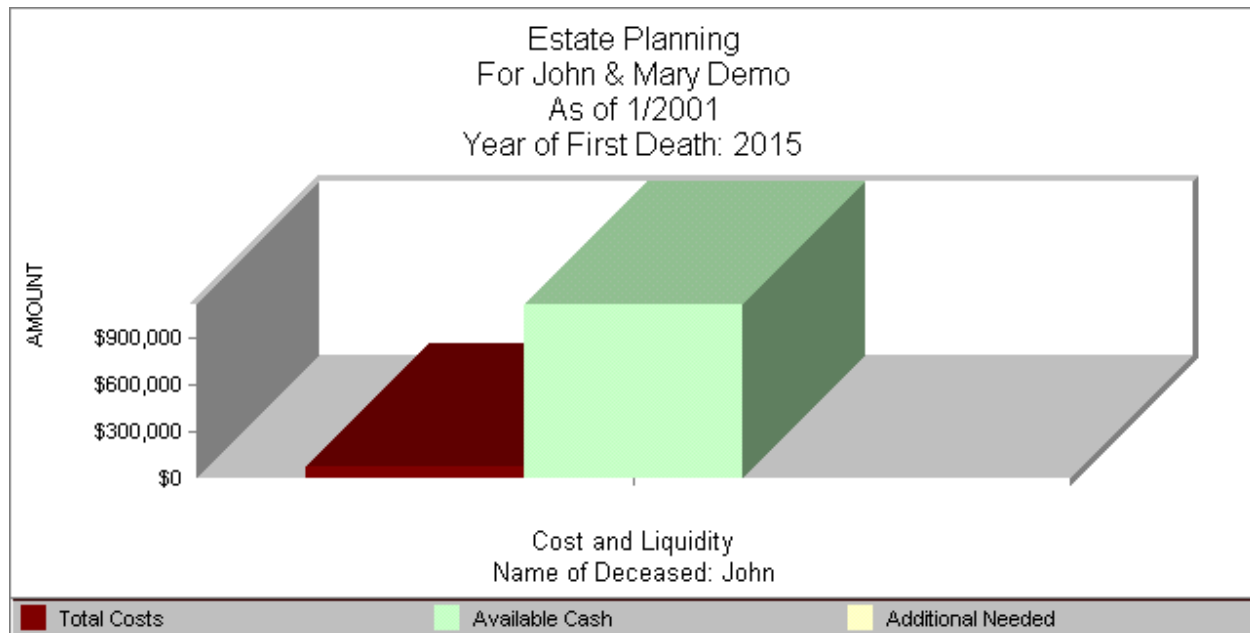
We then assume that \$50,676 is transferred into a trust.

We have hypothetically assumed that John has transferred \$50,676 to Mary under the unlimited marital deduction rules.

The result is that your net federal estate tax will be \$0.

Your estate settlement expenses also include \$22,568 (legal, accounting, court costs, etc.) and debts of \$45,150.

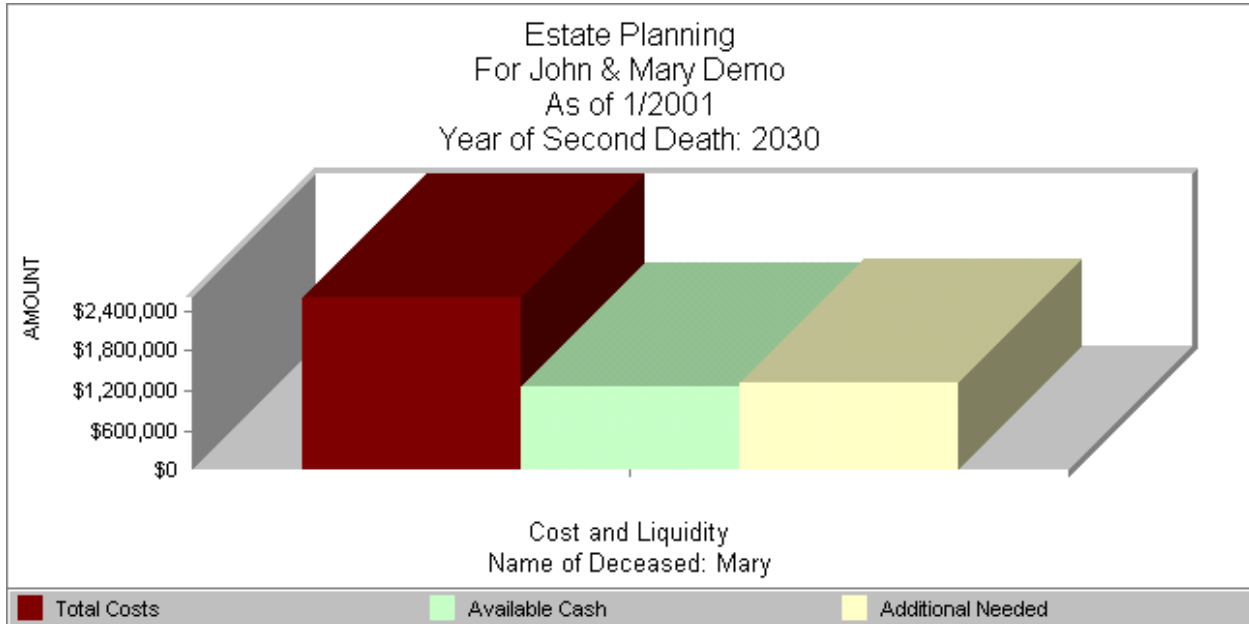
Since you are willing to liquidate assets in excess of these costs you will need to provide no additional liquid capital to settle your estate.



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We then make the assumption that Mary dies in the year 2030. Using the same basic calculations we determine that Mary's Adjusted Gross Estate is scheduled to be \$5,734,304. Note that the estate has been reduced for tax purposes by \$50,676, the amount we transferred into the Credit Trust.

Mary will wind up with a taxable estate of \$5,734,304, assuming Mary dies in the year 2030. There will be a net federal estate tax liability of \$2,448,867. Mary's other estate settlement costs are included in the total costs of settlement.



Since Mary's estate is short of liquid capital by \$1,322,028, this amount will have to be provided for.