

ESTATE PLANNING IN A CHANGING ENVIRONMENT

Starting in 2002, we will face major changes in the estate tax rules. A long transition to these rules, along with a scheduled sunset of the law and reversion back to current law, will make for greatly increased complexity and uncertainty in the estate planning area. Here is a summary of the major changes in the law:

- ✓ Estate tax exclusion amount increases to \$1 million in 2002 (from \$675,000) - and continues to increase to \$3.5 million by 2009
- ✓ The maximum estate tax rate drops from 55% to 50% in 2002, and gradually decreases to 45% in 2007
- ✓ In 2010, the estate and generation skipping taxes are repealed - for exactly one year
- ✓ The gift tax stays in effect - with an exemption capping out at \$1 million
- ✓ Step up in basis rules are eliminated beginning in 2010, with certain limited exceptions

Planning strategies to consider include:

- ✓ Maintain flexibility in your planning documents - all estate plans, wills, and trusts should be reviewed now. Is there enough flexibility to accommodate the planned changes in the exemption amount? Are the correct beneficiaries getting the appropriate amount of assets?
- ✓ Take advantage of the increased exemption amount with current gifts. Making maximum use of annual gifting and educational / medical gifts continue to make sense. The annual gift tax exclusion rises to \$11,000 in 2002. How are you utilizing the increased exemption in your planning? Consider the leverage of gifts achieved with GRATS, QPRTS, and other vehicles.
- ✓ Be sure that you provide for estate liquidity, especially during this period of transition.

Take the time to review your plans now. While this increased complexity and uncertainty make for a complicated process, good planning can still help you to achieve your goals at the lowest tax cost.