

Rosen Seymour Shapss Martin & Company LLP

Certified Public Accountants & Profitability Consultants

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LIFELINES BLAST

Greetings!

Welcome to the Fiduciary Services Group's Lifelines Blast! (a publication of Rosen Seymour Shapss Martin & Company). Here is where you will receive periodic updates on all your trust and estate needs.

RSSM's Fiduciary Services Group offers a wide range of fiduciary services. We assist and guide fiduciaries as they perform their duties and fulfill their obligations. In appropriate circumstances, we can also serve as trustee, and/or executor for you and your family. We will provide your family with protection and security by helping you plan for the future with incapacity protection, probate avoidance, planning for minor children, distribution planning and estate tax planning. Our team approach allows us to provide you with the most basic protection and our experience enables us to assist you with the most complex arrangements, including charitable giving and sophisticated estate tax strategies.

We welcome your questions or comments about topics discussed or related ones. Please feel free to contact us at 212-303-1012 or e-mail us at awillinger@rssmcpa.com and let us know how we can be of assistance.

Sincerely,

Alan M. Willinger, CPA, JD
Partner-in-Charge of Fiduciary Services

Saving Taxes By Making Gifts

We all know that estate tax and gift tax is combined system of taxation using the same tax rate schedule. A gift generates a tax if it is over the \$1,000,000 unified credit amount. For 2007 estates over \$2,000,000 unified credit amount generate an estate tax. For estate

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tax purposes we have to add back to the taxable estate the prior taxable gifts but we get back any unified credit that was used. Thus, it would seem that we would end up in the same place whether an individual makes a gift to his descendants or whether the property passes to his descendants at his death. As an example, for federal purposes an individual who gifted \$20,000,000 to his descendants at his death will generate a gross federal estate tax of \$8,880,800. If, however the individual is a resident of New York at his death, his estate will also pay a New York estate tax of \$2,666,800. The New York tax of \$2,666,800. The New York tax is deductible on his federal return.

How Do We Save Money By Making A Gift?

New York State does not have a gift tax. The New York State estate tax is based on the "state death tax credit" as computed for federal unified credit amount was \$1,000,000. The computation of state death tax credit does not include prior taxable gifts. Thus, prior taxable gifts are not added back for New York State purposes as they are for federal purposes. Accordingly, by making a gift, a New York State resident will save tax of approximately 8.8% of the amount gifted which consists of the New York estate tax rate less the effect of the deduction for federal purposes of the New York tax.

The following chart illustrates the overall tax savings that will result for a New York resident assuming an individual with assets of \$20,000,000 making a gift of \$10,000,000. The chart assumes that the individual will die within 3 years of making the gift so the gift tax paid will be included in his estate.

\$20,000,000 ESTATE - \$10,000,000 GIFT			
	Amount	Estate Tax (Without Gift)	Gift Tax and Estate Tax (With Gift)
Estate Tax on: Federal NY	<u>\$20,000,000</u>	\$6,899,940 2,666,800	
Gift Tax on: Federal	<u>\$10,000,000</u>		\$4,035,000
Estate Tax on: Federal NY	<u>\$10,000,000</u>		3,584,580 <u>1,067,600</u>
Total		<u>\$9,566,740</u>	<u>\$8,687,180</u>
Tax Saved With Gift			<u>\$ 879,560</u> (8.8%)

Estate Planning Red Flag

You haven't left final instructions for your family

When you die or if you become incapacitated, will your family know where to look for your will and other estate planning documents? In today's digital age of paperless transactions and electronic records, your family may not even know about certain assets unless you inform them. And even if they do know, without your username and password, it may take weeks or months before they can gain access to the accounts.

The last thing you want to do is make an already trying time more difficult for your loved ones. To smooth the process, keep a list of your important contacts, documents, assets and liabilities. Be sure to include:

- Contact information for your accountant, attorney and investment advisors,
- The location of your will, living trust, tax returns, powers of attorney, insurance policies and other important documents,
- A list of all stocks, bonds, real estate and other investments,
- Information about bank accounts, credit cards and mortgages,
- Information about your pension or other employer-provided retirement plans,
- The location of safety deposit boxes and keys,
- Safe combinations, and
- The location of family heirlooms and other valuable personal property.

In addition, consider writing a letter explaining your wishes in a way that is less formal than your will or living trust. Even though the letter is not legally binding, it may provide needed guidance to your children or other heirs.

Gift Program Design

The establishment of a gift program can be an effective tool for lowering estate taxes. The following guidelines should be considered in the design of a gift program:

- Consider giving gifts that yield higher amounts of income as opposed to low yield assets.
- If the recipient of the gift is in a low income tax bracket, give asset that produce as much taxable income as possible. Assets that do not produce taxable income such as municipal bonds should not be considered as part of the gift program but retained by the donor.
- Give growth as opposed to non-growth assets. This will prevent the post gift appreciation from being taxed in the

donor's estate.

- Give high basis assets as opposed to low basis assets. The basis of any asset gifted is the same in the hands of the donee as the donor.
- Assets, whose value is less than their basis, should not be given or retained until death. If these assets are given during the donor's life, the donee's basis for determining loss is equal to the fair market value of the assets at the time the gift is made as opposed to the donor's basis.
- Installment obligations should not be given. A gift or other disposition of an installment obligation will cause the entire untaxed profit to be recognized and taxed to the donor at the time of transfer.

FIDUCIARY SERVICES GROUP

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