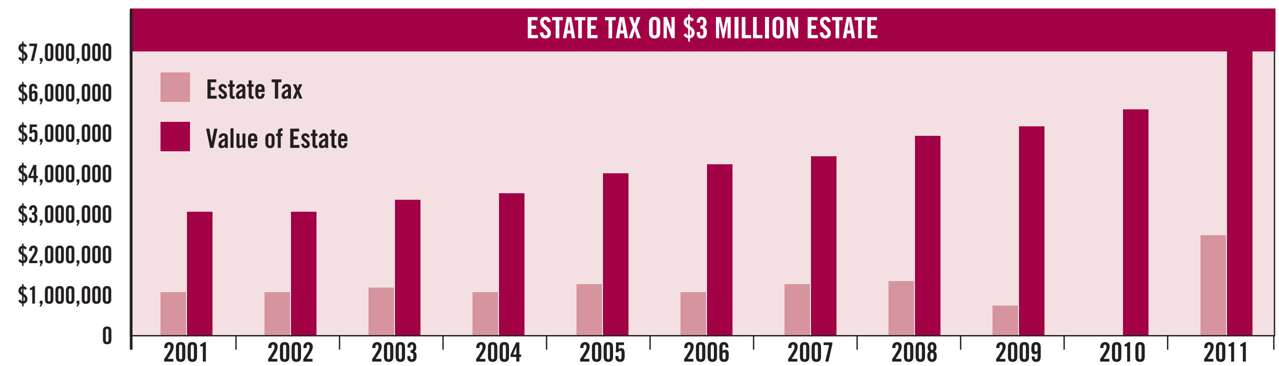
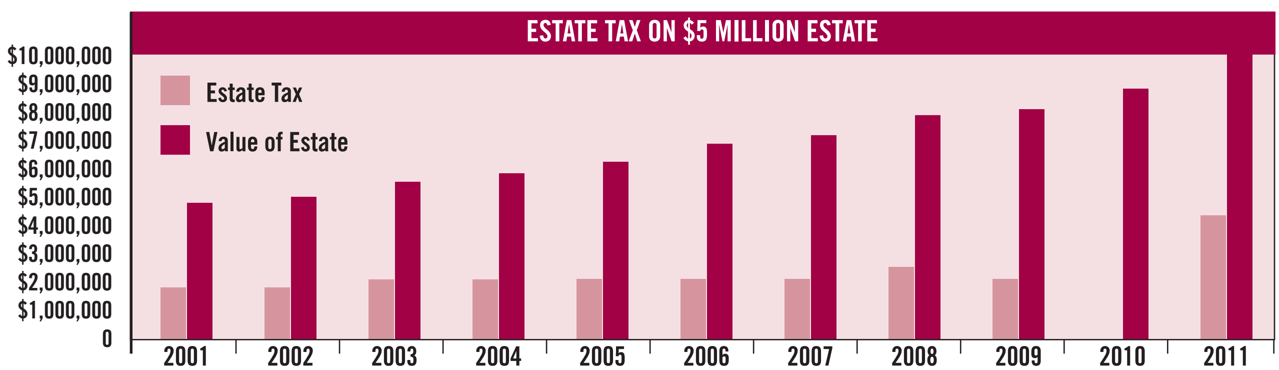
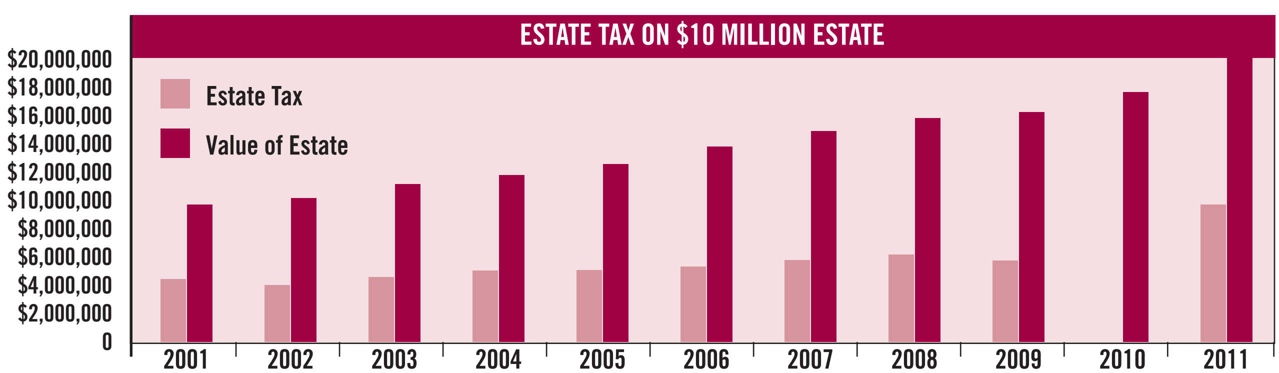
Can You Count on Estate Tax Relief?

If you've heard that the Economic Growth and Tax Relief Reconciliation Act of 2001 ("the Act") repealed "death taxes", think again. Until 2010 the Act may provide only modest relief from estate taxes. The following charts illustrate the projected estate tax liability for hypothetical clients with estate values of $3, $5, and $10 million with an assumed annual estate growth of 7%. The charts reveal that the benefits of the slow phased-in increase in the amount that an individual can transfer estate tax-free and the top tax rate decrease, may be offset by the growth in the value of the estate.







Careful Planning is Key!

The "Act" underscores the need for individuals and their advisors to understand the real facts surrounding potential federal estate tax repeal, and the key role life insurance plays in today's environment. By examining the "Act", it is clear that it provides only temporary relief for one year, several years in the future. Beyond that one year period, the "Act" provides only modest relief, and that relief may be offset by growth in the value of estate assets. Beyond 2010 the Act provides without further Congressional action, the 2001 law will be reinstated.

Furthermore, although the legislation proposes to eliminate "death taxes," it ignores the fact that the legislation only covers federal estate, gift and generation skipping transfer taxes and not all death taxes. Even after 2010, assuming federal taxes are permanently repealed, the "Act" has no effect on taxes imposed by the state. Moreover, the new modified carryover basis tax amounts to a new federal "death tax" on a decedent's appreciated assets. Assets such as qualified plans and non-Roth IRAs will continue to be burdened with federal and state income taxes.

In addition, it is important to keep in mind that life insurance meets other needs that will not be affected by a repeal of the federal estate tax. In fact, the payment of federal estate tax may only be a small part of the reason for maintaining life insurance coverage. Individuals may still have a need for coverage to provide income to surviving family members, cover family debts, provide cash for a business buy-out and provide for final expenses such as administrative and legal fees.

In a world without federal estate tax, the flexibility provided by a permanent life insurance policy may make it even more attractive.

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