



Gifts that keep on giving Helpful tools for deathbed estate planning

Coping with failing health or terminal illness is one of the hardest things anyone ever has to do. And when time is limited, you're also faced with making immediate end-of-life decisions, including how to best provide for your family's financial future.

Take comfort in knowing that there are "deathbed" strategies that you can implement at the last minute to minimize estate taxes and ensure the best for your family after you're gone.

Tax-free giving

Giving gifts is an effective strategy for deathbed estate planning. Although the government taxes your gifts, there are exclusions from the gift tax that let you make tax-free lifetime gifts without tapping your \$1 million gift tax exemption, and without the gift being added back to your estate (if given within three years of your death) for estate tax purposes:

Annual exclusion gifts. Using your annual exclusion, you can make an unlimited number of \$12,000 current interest gifts, such as gifts of cash or property, per recipient each year. Married couples can combine their gift-giving power and give away \$24,000 worth of property tax free, per year, per recipient. Using the annual exclusion repeatedly over a number of years can greatly reduce the size of your estate, which in turn reduces your estate tax bill.

Keep in mind that gifts are considered incomplete until the recipient actually has the cash in hand. For example, in some states checks aren't considered gifts until they've been cashed and the amount has been debited from the originating account. To be safe, give assets in the form of cash or cashier's checks.

Gifts for medical or educational expenses. You can give away an unlimited amount to pay someone's medical or educational expenses, without regard to the relationship. You must make these payments directly to the institution (the school or hospital) and not to the beneficiary. When gifting your child's or grandchild's educational expenses, only payments for tuition are covered for the exemption, not books or room and board. Medical expenses reimbursed by insurance aren't eligible for this exemption.

Deathbed estate planning pitfalls

When considering deathbed strategies, be aware of several pitfalls, such as:

Gifting your appreciated assets. For tax purposes, rental properties and your home and stocks should be left as inheritances for your children and grandchildren. The cost basis of

inherited assets is the fair market value of the property on the date of death. The cost basis of gifted assets usually is the same cost basis that the giver has.

For example, you have 300 shares of XYZ stock that you purchased for \$5,000 15 years ago that are now worth \$40,000. If you gift the shares to your grandchild, Jim, his cost basis in the stock will be \$5,000. If Jim receives the XYZ stock as an inheritance, and it has a value of \$40,000 on the date of your death, Jim's cost basis in the stock will be \$40,000.

Gifting stocks that have lost value. Don't gift your children or grandchildren stock that has lost value since you purchased it. Consider selling the stock so you can take the loss on your tax return, and gift the cash to family members instead. If you gift stocks or other property that has lost value, neither you nor your giftee will be able to deduct the losses on your tax returns.

Establishing a family limited partnership (FLP). The IRS might determine that an FLP was established to avoid paying taxes, rather than for legitimate business purposes.

Setting up an irrevocable life insurance trust (ILIT). To achieve its intended tax benefits, an existing insurance policy must have been transferred to the ILIT at least three years before the insured's death. If the policy is purchased by the ILIT, however, you could avoid the three-year rule.

It's never too late

Ideally, the best time to plan your estate is when you're in good health and before serious illness strikes. But you can have peace of mind knowing there are some last-minute steps that you can take to ensure the financial welfare of your loved ones tomorrow.

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