STANISLAWSKI & COMPANY, INC.

A Certified Public Accounting and Business Consulting Firm

March - April 2013

RE: Prior Large Gifts Increase Your Estate

Dear Friends of Stanislawski and Company, Inc.:

As we meet with our clients to discuss gift and estate tax planning, we often have to remind our clients of a complication when computing their projected estate taxes. The reminder is that all large prior gifts are added back to the decedent's estate and the combination of prior gifts plus the current net assets is what the estate taxes are based on. In other words, you are taxed on your "lifetime" accumulation of assets including prior gifts which can increase your estate taxes because they get added back when computing the value of your estate.

For example, John Smith gifts his daughter $500,000 many years ago. If John Smith were to pass away in 2013, estate taxes apply only when his "adjusted" estate exceeds $5,250,000. Let's say John passes away in December 2013 and has an estate valued in December of $5,250,000. John may have anticipated that his net estate of $5,250,000 minus the $5,250,000 exemption results in no estate tax. However, all prior large gifts must be added back to the estate. Therefore his adjusted estate is $5,250,000 plus the $500,000 previously gifted, which works out to be an "adjusted" estate of $5,750,000 ($5,250,000 value of his estate in December 2013 plus the $500,000 prior large gift). The "adjusted" estate of $5,750,000 minus the $5,250,000 lifetime exemption means he is taxed on $500,000 at 40% ($200,000 in estate taxes).

The reason for getting taxed on a prior gift is due to a unified gift/estate tax; which means that you are taxed on a unified basis, either when you make the gift or when you pass away. Since John Smith did not have to pay gift tax on the $500,000, it eventually resulted in an estate tax. If you happen to have paid previous gift taxes, you do get a tax credit which will reduce your estate taxes.

I define large gifts as any gift to any one person greater than $14,000 in one year which is the 2013 annual gift exemption (it was $13,000 per year for tax years 2009 through 2012, and $12,000 per year for tax years 2006 through 2008). All large gifts are required to be reported on a gift tax return. Since there typically is not a late filing penalty, we recommend you file these tax returns even if the gifts are from years ago. In most cases there is no gift tax to pay; it is just a required disclosure which can affect your future estate taxes.

Another estate tax planning reminder is that life insurance is also added back into the "adjusted" estate. One client kept telling me that it was absolutely not included in his estate because it was paid directly to his children. I explained to him that it is true that his life insurance is paid directly to his children but it still must be included in his estate. This is true because in reality you signed the insurance policy, you paid the insurance premiums and it's your asset that your children will inherit. Therefore, it is also included in your estate.

I hope the above explanation will avoid you from being surprised as that is one of our overall goals of providing proactive and sophisticated consulting services to our clients. Because our firm has been providing these services for over 50 years, we have a specialty in the estate and trust area. Please give us a call if you or any of your acquaintances needs any type of gift, estate or trust planning. Business is great at Stanislawski & Company and we are looking for more.

Sincerely,

Charles G. Stanislawski, M.B.T., C.P.A.

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