Introduction

List of the 10 most important pieces of advice for estate owners:

Credit: http://www.mmsonline.com/columns/winning-the-estate-tax-game
Columns From: 7/26/2016 Modern Machine Shop, Irving L. Blackman

Advice 1-4

1. Do not keep property (other than a convenience bank account) in joint tenancy with a spouse or any other person. After you go to heaven, that surviving joint tenant will own all the property, no matter what your will or trust says. The resulting tax implications are terrible. You see, individuals are allowed a federal estate tax exemption. In 2015, this amount was $5.43 million per person. A couple can't maintain both individual exemptions if they hold their assets in joint tenancy. So, when one spouse dies and the survivor adds the deceased's share of the estate to his or her own assets, that survivor still only gets an estate tax exemption covering $5.43 million of the now combined assets.. **2. If you are rich or likely to become rich, do not put money in a pension or profit-sharing plan such as an IRA or other qualified plan.** "Rich" means you are in the highest income tax bracket (about 40 percent for most state and federal taxes combined) and highest estate tax bracket (also currently 40 percent). Qualified plans are double-taxed, resulting in the tax collector getting about 64 percent of your plan funds (the exact percentage depends on your state's tax rate). That's $640,000 per $1 million to taxes and only $360,000 for your family.. **3. Do not be fooled: A will is not an estate plan. A revocable trust is not an estate plan. Both are death plans.** Your wealth-transfer plan must start now, while you are still alive. This type of plan is called a "lifetime plan" and, if properly done, will enable you to easily and legally avoid paying estate taxes, except in rare circumstances.
4. Do not put real estate in a corporation that operates a business, whether it is a C corporation or S corporation. Instead, you should establish a family limited partnership (FLIP) or a limited liability company (LLC) to own the real estate, and then have the FLIP or LLC rent the property to your operating company.

Estate Planning

Advise 5-10

5. Do use our Retirement Plan Rescue (RPR) strategy if you have more than $300,000 in a qualified plan (401(k), profit-sharing or IRA). This strategy uses money from an existing plan to purchase a second-to-die life insurance policy, and in doing so accomplishes two things: 1) it avoids the double taxes (income and estate) to which funds in a qualified plan are subject, and 2) it uses the plan funds to create additional tax-free wealth, sometimes by a multiple of 10 or more. In a recent case, we used this strategy to increase the after-tax amount in a client's rollover IRA from $606,000 to $5 million. And yes, every dollar of that $5 million will be tax-free.. **6. Do create an intentionally defective trust (IDT) if you want to make a tax-free transfer of your family-owned business to your children, yet want to maintain control of the business for as long as you live.** Rather than sell the company outright to your children (which will have dire tax consequences), transfer through an IDT can save you and the children an amazing $190,000 per $1 million of the business' value (depending on your state income tax rate) in income and capital gains taxes. So if your business is worth $4 million, you will save about $760,000.
7. Do create a family limited partnership (FLIP) to hold all of your investment assets that are not dealt with by the other tax-planning strategies described here. These assets might include cash, CDs, income-producing real estate, vacant land and your stock/bond portfolio. A FLIP will enable you to claim a reduced value for these assets (by 35 percent) for estate-tax purposes. For example, if you transfer $3 million of assets to your FLIP, their value would be discounted by about $1 million, saving you $400,000 in estate taxes.. **8. Do make sure that all your wealth passes intact to your family.** Just reducing your estate tax is not enough. If your current estate plan does not pass this "final test," get a second opinion.

Advise 5-10 (cont)

9. Do make sure that your advisor uses strategies that protect you from creditors and potential lawsuits. Asset protection is just as important as IRS protection.

10. Do make sure you have two separate plans: an estate plan that transfers your wealth in the most tax-effective way, and a lifetime plan that enables you and your spouse to maintain your lifestyle for as long as you live, and that dovetails with your estate plan.