Make Gifts Now While Values Are Low

**'Tis an ill wind that blows nobody any good.
Someone profits by every loss; someone is benefitted by every misfortune."**

The decline in the stock market presents us with a tremendous estate planning opportunity. Make gifts now!

The most basic reason for estate planning is to provide for those you love, and gifts are the simplest estate planning technique. They are easy to understand and easy to implement. Keep in mind the goals of all tax planning: lower taxes, higher future wealth. Either way you look at it, the current depressed values of many stocks represent a tremendous opportunity to make gifts.

Much of estate planning is devoted to reducing the value of assets so that more leverage can be obtained. Now the markets have done this for us. Now is the perfect time to be making gifts of securities. By making gifts using the $12,000 per year annual exclusion (rising to $13,000 January 1, 2009) you can make substantial headway against the estate tax.

Don't wait until the end of the year. Make your gifts now. Don't wait for the market to recover. Make your gifts now. Give away the assets that are at the lowest values. Give away the ones that have sunk to the bottom. Use this opportunity to get future appreciation in the value of stocks out of your estate. And then make another round of gifts using your 2009 exclusion in January.

When there are steep declines in the market, most folks are understandably concerned about the shrinking value of their assets. The natural urge is to hold them closer. If you are in taxable estate territory - over $2 million now and over $3.5 million after the first of the year, even after the current market decline, you need to ask yourself if you really need to hold it all so very close. Wouldn't it be better to take advantage of low valuation to pass more property at significantly reduced taxes to your beneficiaries. Remember that the federal estate tax for amounts over the exemption is 45%.

You and your spouse can each give $12,000 to as many persons, children, grandchildren, friends, as you wish without paying a dime of gift tax and without even having to file a gift tax return. Don't give cash - give your stock that has gone down in value. All of the upside passes to the gift recipient with no transfer tax consequences. You can also pay tuition and medical bills for your beneficiaries, in any amount, with no gift tax consequences so long as the payments are paid directly to the provider of services.

You can also make gifts to leverage the currently available $2 million estate tax exemption and $1 million gift tax exemption. For those with estates in that range, there are many techniques available.

Coupling the low interest rate with low asset values and engaging in these estate planning techniques now can be a home run.

Most people would agree that the value of an asset 25 years from now will be the same despite the current market decline. If you assume that $1 invested in an S&P 500 index fund would increase in value at the rate of 10% per year, 25 years from now, that dollar would be worth $10.83. If a married couple made gifts using their unified credits last year, they would have made gifts of $2 million. In 25 years this would be worth $21.66 million. Today, however, last year's $1 invested is worth about $0.65. If it will still be worth $10.83 in 2032, that implies an average rate of return of 12.4% over the next 24 years.

Using more sophisticated techniques, the already reduced value of stocks can be reduced even further for transfer tax purposes. This is the perfect time to make a Family Limited Partnership and make gifts of the limited partnership interests. Interest rates are very low as well. This makes estate planning techniques that depend on interest rates, such as Grantor Retained Interest Trusts (GRITs) and Charitable Lead Trusts (CLATs) very attractive. It is the perfect time to create Grantor Retained Annuity Trusts (GRATs). It is the optimum moment to make a Dynasty Trust. These techniques offer even more leverage and make the estate tax savings even more dramatic.

Seize the opportunity.