Wealth Preservation Tips and Examples: Are You Richer Than You Think?

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If you don't plan ahead, tax issues may give your family a nasty surprise.

Are you rich? Many people don't think they are, even when the numbers say otherwise.

Maybe it's because most of us know at least a few people who are a lot wealthier. Compared to them, you might feel like you are "middle class."

Bay Area real estate is a relatively big asset

Maybe it's because you live in a place with a high cost of living. Owning a house in a place like the San Francisco Bay Area means having a much bigger asset than the same house would be in Ohio or Iowa. Or maybe you never really thought of how much your assets add up to.

Avoiding a big tax bill for your family

The Internal Revenue Service does think about it. If you fail to measure your own wealth the same way the IRS does, you may be setting up a big tax bill for your family.

Being "wealthy" doesn't always mean you have a lot of cash in your purse or wallet. For example, you might have:

- Wealth tied up in a home and other real estate that has appreciated in value since you bought it
- A lot of insurance coverage
- Lots of money saved up in your retirement accounts

All of that counts as "wealth" when it comes time for your estate to be distributed. If there's enough wealth, it could trigger the 35 percent federal estate tax.

Getting a "pass" on the first five million

The good news is that you get a free pass on the first $5 million of your estate. That's true for both U.S. citizens and for most "green card" holders, or at least those who die in 2011 and 2012.

Does your estate add up to more than that? If so, we need to talk.

Calculating "richness"

So you've added up your bank accounts, stock portfolio and the equity in your real estate. Now include the value of your cars, furniture, antiques or other collectibles. Do you have some business ownership interests? They're part of your estate too. Your 401ks, and IRAs are included, too. Life insurance is included unless it's in an "irrevocable life insurance trust" (ILIT).

Here is an example - are your circumstances at all similar?

It's not that hard to get to a total over $5 million, is it? To give you an example of what your heirs might face, let's assume that your estate is worth $6.2 million. Your estate would owe the federal government $420,000 in taxes, and there may be a state estate tax too, depending on where you live (if you live in California, there is no state estate tax).

You can read all about this in a Wall Street Journal blog from February 2011. Blogger Bill Bischoff notes that life insurance often pushes the estate over the magic $5 million mark. For married couples it's not as much of a problem because spouses get an unlimited deduction on insurance death benefits -- IF the spouse is a U.S. citizen.

The gain without the pain

Does this sound ridiculously complex and irritating? Welcome to estate law. Fortunately for you, I've already gone through much of the pain of learning the best strategies for minimizing taxes. Give me a call and let's talk about ways that you can minimize your estate's tax bill.

"But I'm not really rich!"

Yes, you should call me even if you are one of those people who “isn’t really rich.” Because you don’t want the IRS to make you any *less* rich.