1% Loans – Act Now – Available For A Short Time Only

By James F. McDonough, Jr. on August 8th, 2012 Posted in Assets, Estates, Taxes

Will your heirs be able to borrow money after your death at an interest rate of one percent (1%), in order to pay the tax on your decedent estate?

U.S. taxpayers do not realize that they are living in a period of incredible opportunity for wealth transfer and income tax planning. They are upset by the upcoming presidential election, the looming fiscal cliff, the EU crisis, the Greek exit, and a European recession. Their financial and legal advisors do not know whether to serve coffee or anti-depressants to them at meetings.

Despite the uncertainty, however, these clients have an invaluable opportunity: to transfer wealth today at a fraction of the cost that taxpayers faced in the past. Very low interest rates and depressed market conditions have made this the best of times, not the worst of times. Asset prices will rise in the future, either due to inflation or improving market conditions. On the other hand, the transfer tax value of an asset today is depressed, below its intrinsic value, thereby allowing future appreciation to pass tax-free to one's heirs. Assets not needed for support can therefore be sold or given away today. Assets needed for support can be sold to one's family for a note, bearing a low rate of interest, or transferred for an annuity.

Today, the hidden gem is therefore the opportunity to transfer assets that yield little or modest cash flow but offer tremendous potential for appreciation. Certain planning techniques require payments to calculated using an interest rate published by IRS. In prior years, higher interest rates resulted in payments that often exceeded the asset's cash flow, thus making it difficult or impossible to transfer these assets. With today's exceptionally low rates of interest, however, techniques such as GRATs, SCINs and charitable trusts permit one to transfer virtually any asset at an acceptable tax cost.

Estate planning compares the costs of holding assets until death and paying death taxes or transferring the assets today and using your exclusion. Liquidity, that is having the cash to pay the tax, is always an issue. Imagine your heirs are presented with a tax bill after your death. Will the heirs have to sell at less than best price or borrow from a bank with a risk premium built into the interest rate?

Depressed asset prices and low interest rates result in reduced transfer tax costs making, this the most opportune time to plan for the transfer of wealth. What will be your legacy to your heirs? Will your legacy be the opportunity lost or the transfer of the wealth you worked so hard to acquire?