FOUR WAYS TO PAY FOR ESTATE TAX

FinSec Life

WHAT IS THE ESTATE TAX?

Benjamin Franklin said, "In this world nothing can be said to be certain, except death and taxes." For wealth families this may be even more apparent in paying the Estate Tax. The Estate Tax is a tax on your right to transfer property at your death. An Adjusted Gross Estate, or "Taxable Estate," consists of an accounting of the fair market value of your assets less any applicable deductions.

FOUR WAYS TO PAY:

Assumed death in 30 years with a business value of $250,000,000 and a tax rate of 40%.

		Total Cost	Net Present Value (5%)	Cost per $
1	**Cash/Securities**	$100,000,000	$23,140,000	$0.23
2	**Forced Sale of Assets** *assumed 75% of market value*	$137,500,000	$31,817,500	$0.32
3	**Loan** *with 7.00% interest for 10 years*	$142,377,350	$27,353,536	$0.27
4	**Life Insurance** *$100,000,000 guaranteed death benefit*	$19,833,500	$11,740,639	$0.12

1. *Using a 5.00% discount rate – net after tax.*
2. *John Hancock Survivorship Protector UL 25-year premium to endow at current rates at Age 125, at $793,340 annually.*

WHAT ARE THE OPTIONS?

Cash or Securities. Very straightforward, we can wait and see what the Estate Tax will be and handle the issue at that time. This is assuming that we have cash and/or cash equivalents to utilize for making these payments. In general, the Estate Tax is due within nine months after the date of death.

Forced Sale of Assets. If an estate doesn't have any liquid assets to pay the tax, it may be forced into selling illiquid assets. The short window to pay the government can result in these assets being sold at severely discounted rates. The net effect is having to sell more of your assets than are required to fund the tax, which becomes much more expensive to your estate, in turn reducing the assets left to heirs.

Use a Loan to Pay Estate Tax. In order to avoid the forced sale of illiquid assets, an estate may borrow against those assets to pay the tax due. This can be an effective way to maintain family ownership in closely held businesses and may also have some benefits to the estate. Loan interest derived by loans to pay estate taxes may be deductible in certain circumstances.

> ***Caution:*** A tax lien may be placed on the assets held in the estate until the tax has been completely satisfied. This can inhibit a company's ability to obtain other debt needed in the regular course of business. This strategy also requires faith that the government will continue to provide this option many years into the future and as such may not be a reliable source of relief.

FOUR WAYS TO PAY FOR ESTATE TAX

FinSec LIFE

Purchase Life Insurance. Often one of the most efficient ways to fund a future liability at death is to prepare for it now. The tax-free death benefit from Life Insurance is not only economical but holds the power to eliminate unnecessary stress for you and your heirs worried about paying the estate tax. Beneficiaries are provided with immediate liquidity to pay the estate tax, eliminating the need to apply for loans, petition the IRS for relief, and/or sell off assets at an unfavorable time.

KEY CONSIDERATIONS

The ever-changing landscape of the Internal Revenue Code and its current interpretations should give you pause on relying on any one particular subsection. In dealing with uncertainty, diversifying your strategy is generally recommended. Utilizing assets like life insurance can be used as a good investment should the decision ultimately be to utilize one of the alternative strategies. You should consult with your legal and tax professionals when deciding what is right for you.