



Planning for Your Business Success

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Newsletter

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Are You Aware Of How The Estate Tax Is Figured ?

The federal estate tax is an excise tax imposed on a transfer of property at death. The amount of estate tax liability (imposed at progressive tax rates) depends on the total net value of the property transferred. The following equation demonstrates how the estate tax liability is computed.

- Gross estate (see definition below)
- Less: (i) administration expenses, taxes, losses, indebtedness, etc.; (ii) bequests to the surviving spouse; (iii) charitable bequests; and (iv) the state tax death tax deduction (after 2004)
- Equals: Taxable estate
- Add: Certain taxable gifts
- Equals: Adjusted taxable estate
- Multiplied: By the appropriate tax rate
- Equals: Tentative Estate Tax
- Less: Adjustment for certain gift taxes paid
- Equals: Gross Estate Tax
- Less the following credits: unified credit; tax on prior transfers; and foreign death taxes
- Equals: Net estate tax liability

The gross estate includes the value of all property of the decedent at the time of death. In addition, various types of property, even though not owned at death, are includible in the gross estate for federal estate tax purposes, because economic value is transferred from the decedent to another person at death. Examples include:

- the value of an annuity receivable by any beneficiary by reason of surviving the decedent;

- the value of property held in joint tenancy, with a right of survivorship, except to the extent that the surviving co-tenant contributed to the acquisition or improvement of the property;
- the value of property as to which the decedent had a general power of appointment at the time of death;
- the value of life insurance proceeds;
- cash "distributed on account of the death of a beneficiary" from a qualified tuition program; and
- the value of Coverdell education savings accounts.

Deductions from the gross estate allowable in determining the amount of the taxable estate include amounts for:

- certain expenses and liabilities, such as (a) reasonable funeral expenses, (b) administration expenses, (c) claims against the estate, (d) mortgages and other indebtedness with respect to property included in the gross estate, and (e) certain marital property settlement amounts;
- transfers for public, charitable, and religious uses; and
- bequests and other transfers to the surviving spouse.

Before the tentative estate tax is calculated, taxable gifts made by the decedent after December 31, 1976 that are not included in the gross estate are added to the taxable estate. The tentative estate tax is then calculated using the appropriate tax rates from the table. Then the tentative estate tax amount is reduced by the gift taxes paid on lifetime transfers. The resulting amount is the gross estate tax.

The gross estate tax is then reduced by the unified credit. A unified credit or exclusion amount is available to reduce or eliminate the estate tax liability. The unified credit varies depending on the year of death but effectively excludes

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Upcoming Due Dates

December 15th - Fourth installment of 2007 estimated tax for corporations.

January 15th - Fourth installment of 2007 estimated tax due.

January 31st - Employers must furnish W-2 statements to employees. 1099 information statements must be furnished by banks, brokers, and other payors. Employers must file federal and state unemployment tax returns and pay any tax due.

Thought of the quarter ...

If we wait for the moment when everything, absolutely everything, is ready, we shall never begin. - Ivan Turgenev

Don't forget the upcoming holidays!

December 24th - Christmas Eve (office closed)

December 25th - Christmas Day (office closed)

January 1st - New Year's Day (office closed)

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taxable estates under the following levels: (i) \$1,000,000 for estates of decedents dying in 2002-2003; (ii) \$1,500,000 for estates of decedents dying in 2004-2005; (iii) \$2,000,000 for estates of decedents dying in 2006-2008; and (iv) \$3,500,000 for estates of decedents dying in 2009.

The estate tax will terminate for decedents dying after December 31, 2009. However, under the "sunset" provisions in the legislation, the estate tax will be restored, as of January 1, 2011, to the same status that existed prior to the year 2001 legislation.

Durable Power of Attorney

In planning for the future, it may be a good idea to consider filing a durable power of attorney. This important legal document names an agent or person to ensure your personal affairs are dealt with at a time of mental incompetence or incapacitation. Having this type of document before the need arises may result in lower legal expenses in the future.

The following are a list of authoritative powers for a durable power of attorney:

- Sign tax returns and settle tax disputes,
- Deal with retirement plans and Social Security benefits,
- Access safe deposit boxes,
- Deal with life insurance,
- Make property transfers in a previously established revocable or irrevocable trust,
- And continue or implement a lifetime gift program.

Please note, a durable power of attorney does not allow for medical or other important health decisions which may occur. There may also be instances in which certain organizations do not consider a durable power of attorney as authoritative. In these situations, the organization may have their own special power of attorney form which needs to be filed separately.

As with any legal document, we recommend that you contact your legal advisor for additional information.



Use Gift Tax Exclusions to Reduce Your Estate & Gift Tax

The current federal estate tax exemption is \$2.0 million dollars, but this amount will decrease to \$1.0 million dollars in 2011 unless congress decides to increase it. An important method of ensuring that your estate will not be subject to estate tax is to make sufficient gifts during your lifetime so that at your death your estate is smaller than the then-current exemption amount.

Your lifetime gifts are, however, subject to a gift tax that is imposed at the same rate as the estate tax. This "unified" system is intended to eliminate any tax advantage to making gifts. But certain types of lifetime transfers are not subject to gift tax and the end of the year is a good time to make such tax-free gifts.

The annual gift tax exclusion, tuition payment exclusion, medical plan payment exclusion, gifts in trust, charitable gifts and Section 529 college savings plans are all ways of reducing your estate prior to death. There are limitations and requirements for each of these benefits.

This is a brief overview of ways you can reduce the risk of your estate being subject to the estate tax. If you would like more information please call our office. We will be happy to review your individual situation to help you determine the best use of these exclusions.

A Special Note for Tax-Exempt Organizations

The Pension Protection Act of 2006 requires the filing of *Form 990-N, Electronic Notice (e-postcard), for Tax-Exempt Organizations Not Required to File Form 990*. The IRS began mailing educational letters to organizations with gross receipts of \$25,000 or less, telling them they must file the new e-postcard. The first filings will be due in 2008. The IRS is developing filing procedures now and will publicize them when the system is completed and ready to use. Failure to file the form for three consecutive years will result in revocation of the organization's tax-exempt status.

How Do I Plan My Estate?

Your "estate" is everything you own. You need to have the proper documents in place to ensure everything you own is distributed according to your wishes. Also, these documents cover your health-care wishes and who should care for your children or pets. It is a good idea to have a lawyer as well as an accountant, assist you in setting up your estate plan, especially if your issues are complex or you have a large estate. Be sure you choose a professional who is experienced in dealing with estate-planning.

Consider getting these documents in place. You can always change them. Then, be sure to tell someone where the documents are located.

1. Living trust and/ or will
2. Durable power of attorney
3. Health-care proxy
4. Living Will
5. Beneficiary documents
6. Other options for distributing property

Another option is a letter of intent. It is not a legal document but it can be helpful in letting others know where things are and what your wishes are after your death or if you are unable to communicate your wishes. Things to include in the letter could be:

- Where important documents are located;
- Names and contact information for legal advisors, employer, accountant and other people that may need to be contacted;
- Your funeral wishes and if there were any pre-paid plans;
- A financial inventory regarding income, investments, and insurance proceeds, as well as expenses and other bills that will come due. Include information regarding retirement plans, employee benefit plans, vacation pay, personal property that is kept at work, car loans, mortgages, etc;
- Your wishes for raising and educating your children and any financial arrangements you have made for them;
- Your wishes for your pets.

Think of the letter of intent as something you would give to someone if you were leaving for an extended period of time. Make sure several people know where it is kept or give copies to the people that will be involved in managing your affairs in the event of your death or if you are seriously injured.



We're Looking for A New Star!

Our business is growing. We are in need of a CPA with 3 or more years of experience. The ideal candidate will possess these qualities:

- ★ Self starter
- ★ Team oriented
- ★ Excellent communication skills, both written and verbal
- ★ Computer literate with experience using the Microsoft Office package
- ★ Able to handle multiple projects
- ★ Responsible
- ★ Have a positive attitude and a good sense of humor

For confidential consideration, email your resume to Carol@secpas.com or call us at (620) 341-9700.