

Search

Keyword or product #

in All of CPA2Biz site
[My Online Products](#)
[Advanced Search](#)
[Register Now](#)
[Career Center](#)



[Member Services/Join](#)
[Member Elite Values](#)
[Go to AICPA.org](#)

Category: [Columnists](#)

- ▶ [George White](#)
- ▶ [John Bowen](#)
- ▶ [Jonathan Moreland](#)
- ▶ [Other Contributors](#)
- ▶ [Rick Telberg](#)

[Home](#) > [News & Articles](#) > [Columnists](#) > [Other Contributors](#) > The Most Important Tax Strategy for Your High Net-Worth Clients

April 19, 2007

The Most Important Tax Strategy for Your High Net-Worth Clients

How you can help your clients strategize around their estate taxes today, so they can reap the benefits later.

by Neal Frankle, CFP

You obviously spent countless hours this year with your high net-worth clients trying to reduce their annual income tax liabilities. But, did you forget about their largest tax liabilities? I'm referring to their estate tax of course. Unfortunately, estate tax doesn't get nearly as much attention as income tax does. This is a shame, because with just a little effort, your clients can realize tremendous tax savings. And, if you aren't speaking about estate tax to your clients, chances are, nobody is.



Neal Frankle

Why is this problem? Simple. In the United States, we are witnessing a gargantuan transfer of wealth between generations. Over the next 20 years, more than \$10 trillion will move from one generation to the next. By 2015, annual transfers will exceed \$335 billion. When those transfers take place, many high net-worth clients will receive significantly reduced inheritances because of the estate tax hit. Chances are good that your clients number among those about to transfer or receive a great deal of money in the near future. It makes sense for you to help them keep their estate out of the government's pockets.

Key Benefits

By strategizing around estate tax with your clients, you can help them achieve three very important benefits:

1. Lower estate tax.
2. Higher likelihood that their assets will be distributed according to their wishes
3. Liquidity they may need to settle their estate at the least possible cost.

Who has an estate tax problem? More people than you may think. Even if your clients' net worth is less than the current estate tax exemption (\$2 million) now, they may find themselves well within the estate tax tables by the time they die.

What to Focus on When Trying to Minimize Your Clients' Eventual Estate Tax

For my money, one of the best items to focus on is your clients' retirement accounts. Do they have the proper beneficiary? Most married couples name each other as beneficiary for their respective retirement accounts, but this may be short-sighted. Let's take a look at this. Assume Jim and Martha have a net taxable estate over \$2 million and also assume that neither Jim nor Martha need their IRA assets to provide income during their lives.

If Jim names Martha as his IRA beneficiary and Jim dies, the IRA assets can go to Martha (his spouse) via a roll-over and therefore be a non-taxable event. However, when Martha dies, these assets will still be in Martha's estate. So once Martha dies and leaves her IRA assets to her children, they will have to pay estate tax on those assets. And keep in mind that if Jim's IRA grows after Martha rolls it over, the estate tax problem is only greater. ([E-mail me for my white paper on how Affluent Investors Can Protect](#)

[ADD TO MY LIBRARY](#)

AICPA Store

[Not-for-Profit Organizations Strategic Briefing – 2007/2008](#)

[Strategies for Today's Liability Challenges: Back to Basics 2007!](#)

[AICPA Business Solutions Workshop: Delivering on Your Trusted Advisor Status \[Texas\]](#)

[more >>](#)

Free AICPA Wealth Management Insider™ E-Newsletter

Yes, please send me the AICPA's FREE Wealth Management Insider™ newsletter.

My email address is:

Their Assets and Grow Them Safely.) To add insult to injury, if the kids don't have liquid assets, they will have to make huge withdrawals from the IRA assets in order to satisfy the estate tax liability. Of course, when they do that, they will trigger income tax liabilities. This is a recipe for disaster. It's not unheard of for families to lose more than 70 percent of their assets to income and estate tax.

One alternative is for Jim to leave his IRA to his children rather than Martha (up to the estate tax exclusion). The kids get the money estate-tax free. They will be required to take yearly distributions but those distributions will be relatively small and they can continue to grow most of that inherited IRA tax deferred for decades to come. Also, if the kids get the IRA when Jim dies (rather than Martha) the future growth that would have been subject to estate tax is no longer a problem since the money is no longer in Jim or Martha's estate.

If Jim and Martha need the IRA assets to create retirement income, they may consider converting the asset to a Roth while they are alive. They will have to pay income tax when they convert but they still benefit in many ways. First, the money used to pay the income tax is out of their estate so it reduces the estate tax. Next, they eliminate the risk of future income tax increases since the Roth IRA does not create taxable income upon distribution.

The bottom line on estate tax is that your clients can take a few basic steps to take a big bite out of the estate tax nightmare. There is no "one-size-fits-all" solution. That's why it's important for you to meet with your clients now to discuss the alternatives.

In the beginning of this article I suggested that if you don't talk to your clients about estate tax nobody else will. That may not be true. If you don't discuss this issue with your clients, another tax advisor will. Make sure that doesn't happen by taking the time to plan estate tax minimization with your clients now.

Rate this article 5 (Excellent) to 1 (poor). Send your responses [here](#).

[Neal Frankle](#) is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, to do the same thing for their clients.

The material in this article is general information and not meant to provide specific investment, tax or legal advice.

[About CPA2Biz](#) | [Contact Us](#) | [Advertise](#) | [Terms & Conditions](#) | [Privacy Policy](#) | [Site Map](#)

© 2001-2007 CPA2Biz, Inc. All Rights Reserved. CPA2Biz and the CPA2Biz logo are trademarks and service marks of CPA2Biz, Inc.
100 Broadway 6th Floor, New York, NY 10005

All other trademarks are the property of their respective owners.

To place an order by phone or for other assistance, please call 1-888-777-7077.

Powered by
RIVIO