

BROOKS
&
BROOKS, LLP



Income Tax Time

Time to Double Check How your Assets/Accounts are Titled

For clients with revocable or irrevocable trusts, now is a good time to check your annual account statements and 1099's to be sure financial accounts are titled correctly.

For those clients with **revocable trusts**, the account statements should be in the name of the trust, with the client's personal social security number as the trust's tax identification number.

For those clients with **asset protection trusts** (irrevocable trusts), the account statements for accounts that are intended to be owned by the trust should reflect the name of the trust and the tax identification number for the account should be the trust's number, not the client's social security number.

Because New York State is a "title" state, it is important that any account that is intended to be owned by any trust is actually titled to the trust. Some clients may have a "Pay on Death" or "Transfer on Death" designation on an account, which means the account is still owned by the client. However, upon death the proceeds of the account will be payable to the named beneficiary, many times a trust. It is important for each client to understand which accounts are intended to be held by one or more trusts and which accounts are intended to be owned individually.

If you suspect there is a problem with an account statement not being titled properly, feel free to give us a call to stop in and discuss the issue. Trusts are becoming an increasingly important tool to use to avoid probate and protect assets. We at Brooks & Brooks want to help in anyway we can to be sure client accounts are properly maintained in the correct ownership form.

If you would like to call for an appointment to review your asset ownership in trust or otherwise, please feel free to call.

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A Private Client Law Firm

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Free Workshops

April 15, 2014

Chanderson's, Yorkshire
with Laura Dealy
6:30 to 8:30 p.m.

April 29, 2014

YWCA, Westfield
with Andersen Cuddihy, Inc
6:30 to 8:30 p.m.

May 13, 2014

Moonwinks, Cuba
6:30 to 8:30 p.m.

May 20, 2014

VFW, Randolph
6:30 to 8:30 p.m.

**NYS 2014 Budget Bill
Major Changes to NYS Estate Tax**

The 2014 New York Budget Bill, as passed by the Assembly, Senate and signed by the Governor, makes new and radical changes to New York’s estate (death) tax. Effective for decedents dying on or after April 1, 2014 there is a new estate tax rate schedule starting with 3.06% of a taxable estate over \$500,000 to a 16% tax on a taxable estate of over \$10,100,000. Notwithstanding, there is a new applicable credit against the tax, which for the first year after April 1, 2014 is \$2,062,500 per person. This means that a married couple can transfer up to \$4,125,000 New York State tax free during this time. Beginning April 1, 2015 and thereafter, the applicable credit amount is increased by roughly \$1,000,000, so that by January 1, 2019, the full credit will be \$5,250,000 per person.

This is a **major** shift in tax policy for New York and will mean that for the vast majority of people, there will be no estate tax - either federal or New York State.

The good news notwithstanding, we must be mindful of the tax “cliff” which will affect some. The tax cliff is the confiscatory marginal tax rate on taxable estates roughly between 100% and 105% of the applicable exclusion amount. An example best describes this:

Imagine someone dies between April 1, 2014 and April 1, 2015. His or her exclusion amount would be \$2,062,500. Suppose this person had a taxable estate of \$2,165,625 (105% of the exclusion amount). Applying the tax rate schedule to this taxable estate would yield a total tax due of \$112,050.

This means that on a taxable estate of \$65,625, the tax is actually \$46,425.00 more than the taxable amount!

So, for the privilege of having \$65,625 more than the applicable exclusion amount, our deceased taxpayer pays \$112,050, which is an effective rate of about 170%!

Great care must be taken in planning estates, whether a single or married couple, where the potential taxable estate may be over the \$2,000,000 mark in the coming year. It will take five full years before the applicable credit will protect the \$5,250,000. For those individuals, single or married, whose potential estates are over this amount, great care must be used to protect their estates from not only the 16% New York State estate tax, but also the 40% federal tax. The combined tax rates will amount to the federal and state governments being a beneficiary of an estate by over 50%. Over one-half of a person’s accumulated wealth in a lifetime being paid in government taxes, just because he or she worked hard, was successful and invested well.

In our 77 years of combined experience, no client has ever come to an estate planning conference and listed the federal or state government as a desired beneficiary of their wealth. Proper advanced planning can do much to alleviate the tax burden for those affected. However, action must be taken.

THOUGHTS FROM WILL ROGERS:

1. Never slap a man who’s chewing tobacco;
2. Good judgment comes from experience, and a lot of that comes from bad judgment;
3. Some people try to turn back their odometers. Not me, I want people to know why I look this way. I’ve traveled a long way, and some of the roads weren’t paved!