

Holding On To Your Wallet

Plenty of people depend on the equity in their homes to move into new places—over-55 and retirement communities, or smaller homes. Up to \$250,000 (\$500,000 thousand for a married couple) of profit from the sale of a home is exempt from capital gains.

But there's more to consider if, for instance, you're worth more than \$5 million and could die in the next two years, says Yale Ginsburg, estate planning attorney for Adelberg, Rudow, Dorf & Hendler.

Last December's tax deal raised the exemption to \$5 million (\$10 million for married couples), with amounts over that taxed at 35 percent. But that's now: That tax rule expires in 2012. So it's not a bad idea to have a plan in mind.

One thing to note, says Ginsburg, is the new lifetime gift exemption of \$5 million, which means that divesting yourself of wealth before you die may help your heirs later on—especially if the \$5 million limit is reduced when it expires at the end of 2012. Gifts up to \$13,000 annually are exempt from any taxes, but a gift over that amount—up to the \$5 million lifetime limit—is tax-free if the recipient files a gift tax return.

HERE ARE SOME OTHER THINGS TO CONSIDER:

■ **A life insurance trust:** This vehicle will shield your life insurance policy from estate tax. Your life insurance is transferred into a trust, with a pre-determined beneficiary. You make annual "gifts" to the trust, which are used for premium payments. The proceeds of the life insurance policy are not included in either spouse's estate when they die. The downside, says Ginsburg, "is you give up control of the policy." So, for example, changing the beneficiary can be complicated.

■ **A real estate trust:** Ginsburg recommends a Qualified Personal Residence Trust (QPRT) for wealthy clients. The basic purpose of the trust is to transfer a valuable residence to your children at a reduced tax cost. Through the use of a trust, you can reduce the overall estate tax bill and leave it up to your heirs when to sell the house—so they can postpone capital-gains taxes. This vehicle, says Ginsburg, is for people who are concerned about being over the \$5 million limit.

■ **Give the stock instead of the proceeds:** If you bought stock 20 years ago that has appreciated in value, says Ginsburg, and you decide to sell now to distribute proceeds to your grandchildren, you'll pay the capital gains tax on any profit. Better leave the stock in your will, and the current value will go towards your \$5 million estate exemption. "The capital gains goes away," he says.

■ **Hang onto the house:** Like the scenario with stocks above, the person who inherits a house will not have to pay capital gains on the appreciation.

■ **Maryland State Tax:** Of course, says Ginsburg, these scenarios don't work for everyone. Though it's important to remember that even if you aren't in the \$5 million category, the state of Maryland has an tax-free inheritance limit of \$1 million. Taxes on amounts above that threshold, however, are taxed at a rate much lower (starting at 3 percent) than the federal percentage.