

ISSUE FOUR / APRIL 2005

# ESTATE PLANNING NEWS



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## Feature Article: Is Estate Tax Repeal for Real?

For the fourth time in four years, the House of Representatives has voted to eliminate the federal estate tax. Will the Senate agree?

### Current Estate Tax Law

This year, estates in excess of \$1.5 million ("the estate tax exemption amount") are subject to estate taxes at rates as high as 47%. Just over the limit? Next year, the estate tax exemption amount increases to \$2 million, with estate tax rates capped at 46%. Still cringing at your estimated tax liability? Can you hold out until 2009? If so, you can pass \$3.5 million to your heirs free of estate tax. Live next door to Bill Gates? 2010 is your year.

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# Estate Planning News

## Announcements

Nicole and her husband, George, celebrated their 3-year wedding anniversary in Spain. The itinerary included Madrid, Cordoba, Sevilla, Cadiz, Gibraltar, Marbella, and Granada. Enjoy the pictures!



## Tip of the Month

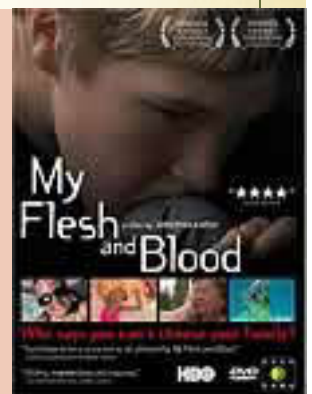
Attention Homeowners with Living Trusts:  
Are you receiving your homeowner's exemption?  
Be sure to check your real property tax return.  
For your primary residence, you should see a \$7,000 exemption labeled "homeowner's."

If you did not receive your exemption, call your County Assessor's Exemption Office. They will send you a card to complete. The exemption is worth about \$70 annually.

## Entertainment

### My Flesh and Blood (2003)

For Sundance followers and documentary fans, this is the real life story of a Fairfield, California woman who adopted 11 children with special needs. The movie follows the family's ups and downs, reminding us that we are more similar than we are different.



# Estate Planning News



*Why shouldn't the American people  
take half my money from me?  
I took all of it from them.*

*-- Edward A. Filene*

## Update: Terri Schiavo R.I.P.

Terri Schiavo, the 41-year-old brain-damaged woman who became the centerpiece of a national right-to-die battle, died on March 31, nearly two weeks after doctors removed the feeding tube that had sustained her for more than a decade.

After an autopsy, Michael Schiavo plans to have his wife's body cremated and her ashes brought to Pennsylvania, where she grew up. Michael's brother, Scott Schiavo, said the ashes would be buried in a plot left by an aunt and uncle. The family does not plan on providing the specific location for the burial -- underscoring the bitterness of the dispute with Terri's parents, who fought to keep their daughter alive.



## Estate Tax Repeal (cont.)

The one year repeal is especially significant in light of its limited duration. On January 1, 2011, the estate tax exemption plummets to a measly \$1 million, and the top rates will resume at 55%!

Although death and taxes are the only guarantees in life, the uncertainty surrounding the estate tax has made planning difficult.

### The History of the Estate Tax

The one year repeal is no surprise to history buffs.

The federal estate tax was originally enacted at the end of the eighteenth century to finance American naval expansion during tensions with France. It was repealed in 1802.

The second estate tax resulted from the outbreak of the Civil War. It was repealed in 1870.

This repeal was shorter lived, as the government reenacted the tax at the end of the nineteenth century to finance the Spanish-American War. Again, the tax was repealed in 1902.

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## Estate Tax Repeal (cont.)

The current estate tax was enacted in 1916, when the United States entered World War I. The scheme has been overhauled several times, but it will survive nearly a century before its scheduled repeal in 2010.

### Arguments in Favor of Repeal

As 2011 approaches, lobbyists for family-owned businesses and affluent heirs have begun appealing to lawmakers.

Historically, the argument against the estate tax has stressed its inherent unfairness. The estate tax is essentially a form of double taxation that penalizes financial success.

But to gain popular support, the argument that the estate tax takes away the American dream has now centered around small businesses and farms forced to liquidate to pay the estate tax.

### Arguments Against Repeal

Tax cuts are always questioned when the government is in the red. The Center for Budget and Policies Priorities estimates that repealing the estate tax would cost the Treasury about \$40 billion in 2011. What programs would be cut to compensate for this lost revenue?

House Minority Leader Nancy Pelosi (D-Cal.) calls estate tax repeal “reverse Robin Hood ... taking money from the middle class and giving it to the super-rich.”

The Internal Revenue Service estimates that between 2-3% of estates paid an estate tax in 2001. As the estate tax exemption amount increases to \$3.5 million, less than half a percent of estates are expected to be affected. Nevertheless, the House rejected the Democratic counteroffer to shield \$3.5 million in future years by a 194-238 vote.

The House also seemed to overlook evidence that less than 1% of all estate tax revenue comes from estates principally based on family businesses or farms.

### Conclusion

How has the plight of the “super-rich” gained popular support? Perhaps it is the strength of the American dream, where quality reigns over quantity. Then again, a simpler explanation might be the fear among average citizens that they will not have enough savings to retire without risking inclusion of the government as a beneficiary of their estate.



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