



National Madison

340 Madison Avenue / 21st Floor / New York, NY 10173
T 800.774.2995 | F 212.687.2990 | www.nationalmadison.com

this issue

- Making the Tax Bill Work For You
- New Communications Platform
- NFP National Madison Gets a Whole New Look
- Upcoming

WEALTH TRANSFER
AND PRESERVATION
STRATEGIES
March 2011



Making The Tax Bill Work For You

In this feature article, we discuss the estate and gift planning techniques made available by the tax rates and exemptions allowed in 2011 and 2012. Understanding how to effectively utilize the current tax environment may allow the transfer of significant wealth during this relatively short timeframe.

President Obama ended a year of tax uncertainty last December by signing into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("the Tax Bill"). The Tax Bill is comprehensive and not only addresses income, capital gains and estate tax rates, but also the alternative minimum tax, unemployment insurance and many expiring individual and business tax credits and incentives.

The Tax Bill extends the 2010 income tax, capital gains and dividend tax rates for all Americans through 2012. The top income tax bracket remains at 35% and the top capital gains and dividend tax rates are still 15%. As a result, many investors may find this continued low-tax environment an optimal time to consider selling certain appreciated assets or to accelerate ordinary income distributions.

continued on inside page

New Communications Platform

We value our clients and partners and strive to provide the knowledge and resources needed to prepare for the future. We know that only through careful analysis and oversight can there exist thorough understanding of unique circumstances and needs.

NFP National Madison has expanded its communication platform to include newsletters, e-newsletters and alerts and LinkedIn in addition to the wealth of up-to-date information that we always have available on our website. You can look forward to receiving regular updates and communications from us covering all of the topics relevant to your life. Our areas of focus include:

Private Client Services:

Estate and Gift Tax Planning, Split-Dollar Insurance Plans, Liquidity and Wealth Preservation and Transfer Strategies and Charitable Planning.

Business Services:

401k Excess Plans, Business Succession Planning, Deferred Compensation, SERPs, COLI, Executive Disability and Long-Term Care.

Non-Profit Organization Services:

Endowment Funding, Insurance Gift Portfolio Management and Audits, Retirement Planning and Deferred Compensation Plans.

We address new developments and timely issues within these topics to provide you with relevant and up-to-date information to help you manage your future.

We look forward to sharing our knowledge and experience with you and welcome your questions - you can reach us anytime at inquiry@nationalmadison.com.

FROM THE DESK OF SAM RADIN:

Making The Tax Bill Work For You

continued from cover page

In addition, the Tax Bill provides several incentives for individuals and families. It provides incentives for charitable gifts by extending a prior law that allows individuals aged 70 ½ and older who must take required minimum distributions from Individual Retirement Accounts (IRAs) to withdraw up to \$100,000 from the IRA for donation to a charitable organization (through 2011).

The Tax Bill also clarified the status of the estate tax, at least for the next two years. To the surprise of many, the bill increased the exemption from estate tax to \$5 million. More important, it reunified the estate, gift and generation skipping transfer ("GST") tax rates and set exemptions at \$5 million and the rates for estate, gift and GST tax at 35% for 2011 and 2012. Because there is no certainty that such rates and exemptions will continue, the Tax Bill has created an important planning window through December 31, 2012.

Several planning opportunities arise as a result of the gift and estate tax changes. Because the gift tax exclusion is increased from \$1 million to \$5 million per person (\$10 million per married couple), this could be an optimal time to gift assets that are likely to have significant appreciation. Alternatively, many couples can use their gift exemptions to fund an irrevocable life insurance trust and have that trust purchase life insurance, an excellent way to transfer assets tax-free to beneficiaries. The added benefit with this strategy is the gift amount

can be guaranteed to increase significantly by the trust-owned policy death benefits, a valuable technique for GST purposes. Under the GST, once property is designated as exempt (by using the \$5 million exemption), it remains exempt together with all future appreciation.

States have their own estate taxes which are deductible against federal estate taxes. Most states, however, do not have gift taxes. For this reason, taking advantage of the \$5 million gift tax exception also saves state estate taxes. For example, New York State has an estate exemption of \$1 million. Assuming a married couple already used their \$1 million New York exemption each (\$2 million jointly), they now have another \$4 million each (federal exemption) to gift or leave at death. By using the \$8 million remaining exclusion to make gifts now, such property will not be subject to state estate tax later. The gifts, even at zero growth, will save \$832,000 in New York State taxes. Thus, assuming the New York State maximum estate tax rate (16%), deductible on the top federal tax rate (35%), the net impact of NYS estate tax would be 10.4% ($65\% \times 16\% = 10.4\%$).

Gifting strategies combined with life insurance could also enhance a couples' lifetime gift exemption. By gifting the full \$8 million dollars to an ILIT and utilizing the income generated to purchase life insurance, they may be able to increase the net value of the trust and pass



even more of their wealth to heirs¹. While the \$8 million may grow in the trust and produce a larger benefit to heirs, the use of life insurance in conjunction with the income produced by the growth will likely increase the value significantly through a higher rate of return².

While the Tax Bill provides many opportunities to implement tax-saving techniques, remember that the income, investment and estate tax changes are only good until 2013. Based on President Obama's most recent State of the Union address, it seems likely that the Tax Code will be subject to extensive revision. Without Congressional action to extend the estate, gift and GST exemptions and tax rates, they will revert to 2001 rates (55% estate, gift and GST tax rate and \$1 million exemption). One should consider how best to take advantage of the new, low tax rates to maximize gift opportunities. And keep an eye on Congress.

¹ Guarantees, ratings, and benefits provided by life insurance products are subject to the claims-paying ability of the issuing insurance company.

² Such income would be taxable to the creator of the trust under the grantor trust rules. The payment of such income tax by the grantor, however, is not deemed to be a gift and, therefore, further enhances the trust's return on investment.

Case Study: Taking Advantage of the 2011 Unified Tax Credit

Situation

You and your spouse, both age 70 and in good health, have both gifted \$1 million to an ILIT to maximize the lifetime gift exemption to its capacity. Now, since the estate and gift tax exemption has been unified and increased to \$5 million, you would like to take advantage of the additional \$8 million now available to you in lifetime gifts.

A Recommendation

By gifting the full \$8 million to trust and utilizing the income generated to purchase life insurance you may be able to increase the net value of the trust. For example, assuming the trust earns 6.4% after management fees (but before taxes which are payable by the grantor of the trust, not the trust itself), the trust can purchase a survivorship policy with a premium of \$512,000 and a guaranteed death benefit of \$32,641,490. Without the life insurance, the trust would pay the income tax and net only 3.84% assuming a 40% tax rate.

Potential Benefit

By purchasing life insurance, at the joint life expectancy of 87, the trust value of planning with life insurance is \$40,341,490. This technique provides an additional \$25,160,869 over the trust without life insurance valued at \$15,180,621.

At joint life expectancy, the trust value of planning with life insurance is \$40,341,490.

This technique provides an additional \$25,160,869 over the trust without life insurance.

		Gift of \$8 Million in Trust							
		Investment without Life Insurance		Investment with Life Insurance					
Year	Age End of Year	Value of Trust EOY	IRR on \$8M Gift EOY	Value of Trust Investments EOY	Value of Trust Death Benefit EOY	Total Value in Trust EOY	IRR on \$8M Gift EOY	Increase in Value to Heirs EOY	
1	71/71	8,307,200	3.84%	8,000,000	32,341,490	40,341,490	404.27%	32,034,290	
7	77/77	10,414,604	3.84%	8,000,000	32,341,490	40,341,490	26.00%	29,926,886	
13	83/83	13,056,622	3.84%	8,000,000	32,341,490	40,341,490	13.25%	27,284,868	
17	87/87 (LE)	15,180,621	3.84%	8,000,000	32,341,490	40,341,490	9.98%	25,160,869	
24	94/94	19,762,519	3.84%	8,000,000	32,341,490	40,341,490	6.97%	20,578,971	
30	100/100	24,775,953	3.84%	8,000,000	32,341,490	40,341,490	5.54%	15,565,537	

Hypothetical Disclosure

The hypothetical case study results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. No representation is made as to the accurateness of the analysis.

ILIT Disclosure

If your policy is owned by a properly drafted trust that exists outside of your taxable estate, the income tax burden of the trust is reduced since the cash values grow tax-deferred. Moreover, the proceeds should not be subject to estate tax when the policy is owned by the trust.

Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds.

Securities offered through NFP Securities, Inc. Member FINRA/SIPC. National Madison Group, Inc. and NFP Securities, Inc. are affiliates and subsidiaries of National Financial Partners Corp (NFP). National Madison and NFP Securities, Inc. are not engaged in the practice of law and do not provide tax advice. You should consult with your own professional advisors. To ensure compliance with requirements imposed by the IRS, we inform you that, unless explicitly provided otherwise, any U.S. federal tax advice contained in this presentation is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Find Us:

LinkedIn:

<http://www.linkedin.com/companies/national-madison-group-inc>.

Web:

<http://www.nationalmadison.com>

E-Mail:

inquiry@nationalmadison.com

NFP National Madison Gets a Whole New Look

On September 20, 2010, our parent company NFP announced a new brand for both itself and its firms. As a part of NFP, we are proud to embrace this new look and what it represents. As one piece of a vast organization, we know that our strong connections to NFP and our sister firms enable us to provide our clients and associates with expertise in benefits, insurance and wealth management. The depth and breadth of the resources we utilize is unparalleled in our industry and the knowledge we can provide our clients allows them to implement the best plans for their needs.

Through your relationship with NFP National Madison, you can benefit from this stronger alignment with NFP and NFP firms and know that you will have access to the best and brightest in the industry. Though our commitment to peerless service remains unchanged since 1984, the advantages to our clients continues to grow and expand as we develop relationships that ensure you have access to the tools and information you require.

Upcoming

- **Leveraging Charitable Gifts to Create an Endowment Fund**

Non-profit organizations need major charitable gifts more than ever but current economic conditions make securing large endowments difficult. Learn how leveraging a charitable gift can ensure you leave the legacy you intended.

- **Retaining and Rewarding Executives through Deferred Compensation Plans**

A company's success depends on the talent of its key executives. But keeping those people is sometimes easier said than done. Learn about a key tool to help recruit, reward and retain the most valuable executives.

- **Life Insurance Reviews - Do You Know What You Have?**

Too often, a life insurance policy is purchased and then filed away and forgotten, even if its role is integral to the overall estate and wealth transfer plans of its owner. As a complex financial instrument, life insurance is a flexible and important asset in your overall portfolio. Learn the "Whats", "Whys" and "Hows" of a life insurance review and protect your financial future.