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Nationwide YourLife® No-Lapse Guarantee UL

Decoding the estate tax repeal

Nationwide®

YourLife
SALES IDEA

Do you have clients who think the federal estate tax repeal means there is no more need for estate planning?

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA), signed in 2001, simultaneously increased estate limits and decreased estate tax rates. These changes continued incrementally until January 1, 2010, when the estate tax was repealed altogether in favor of a modified carry-over basis tax. Unless Congress passes legislation prior to 2011, the estate tax will return and will revert back to the 2001 tax rates, a maximum of 55%. This uncertainty can make estate planning tricky for both you and your clients.

Life insurance is still a great strategy for helping clients arrange for the future payment of potential taxes on their estates, whether the federal estate tax remains repealed or not. Of course, neither Nationwide® nor its representatives give tax or estate advice. For answers to specific questions, your clients should consult their attorney or tax advisor.

Let's look at an example

Julie, a 60-year-old widow in good health, has an estate estimated to be worth $15 million at her death. Meeting with her insurance professional, Julie wondered about the possibility of estate taxes remaining repealed and how the repeal could affect her tax planning. Her insurance professional urged Julie to discuss this with her estate attorney, since an analysis of Julie's assets makes it clear her estate will have taxation issues whether estate taxes remain repealed or not.

Julie's current assets are as follows:

- An estate currently worth around $5.75 million
- Stocks worth $2 million with an average cost basis of $500,000 (estimated to be worth $5.3 million at the projected date of death if the stock continues to appreciate at 5%)

With the estate taxes repealed, no estate tax would be due, but Julie's children would not inherit her stock at the step-up basis (value of the stock the day the parent died). When selling that stock at a later date, Julie's children will have to pay tax on any gain above $500,000 at the 20% capital gains rate. (Capital gains tax rates are scheduled to go back to 20% in 2011.)

Assuming Julie's children sold the stock for $5.3 million, and that the $1.3 million basis increase available to Julie's estate has been used on other eligible property, capital gains tax on the sale would amount to $960,000. Or, if we assume estate taxes return to 2001 rates and the $1 million lifetime exemption was applied to other estate assets, the stock would be estate taxed for approximately $2.9 million. Either way, Julie and her late husband's legacies are diminished by taxation.

Julie realizes further estate planning needs to be done. She decides to purchase a Nationwide YourLife No-Lapse Guarantee UL policy with a death benefit of $2.9 million to be owned by an irrevocable life insurance trust (ILIT). Now, whether estate taxes are repealed or not, her children will have sufficient tax-free funds to help offset taxation, no matter how it occurs.

- No estate tax (repeal)
- No additional life insurance
- Julie dies at age 80

Stock value $5.3 million

Beneficiaries sell stock for $5.3 million

20% capital gains tax due of $960,000

Beneficiaries receive

$4.3 million

- Estate tax reinstated at 2001 rates
- No additional life insurance
- Julie dies at age 80

Stock value $5.3 million

Beneficiaries sell stock for $5.3 million

55% estate tax due approximately $2.9 million

Beneficiaries receive approximately

$2.4 million

- Estate tax reinstated at 2001 rates
- Additional life insurance
- Julie dies at age 80

Stock value $5.3 million

55% estate tax due approximately $2.9 million

Beneficiaries receive approximately $2.4 million from estate

Beneficiaries receive life insurance proceeds from ILIT of $2.9 million

Total to beneficiaries

$5.3 million

Helping clients face an uncertain future head-on

Regardless of what happens with estate taxes, a life insurance policy like Nationwide YourLife No-Lapse Guarantee UL is an efficient strategy for passing wealth on to the next generation or to a favorite charity.

Your clients' life insurance needs may change with their personal situations, like marriage or a job promotion. They should consider whether a particular life insurance policy will fit their long-term life insurance needs and weigh any associated costs before purchasing. Fees and charges include costs of insurance that vary with characteristics such as gender, health and age, as well as additional charges for riders to customize a policy to fit client needs.

To find out more, call us today!

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