



5 minutes with Mark

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THE VALUE OF A THOROUGH ESTATE PLANNING AUDIT

*The devil is in
the details,
and so is the IRS*

In recent years, we've been involved in a few large estate settlements, an experience that prompted us to create the estate planning audit service we introduced in 2006. I hope to give you a glimpse at why a thorough estate planning audit can be of tremendous value to you and your heirs.

A quick summary of the estate settlement process: Take your asset value (attach appraisals), subtract tax credits and multiply the remainder by your tax rate (48% max, plus state tax), and write a check for how much is owed (as per line 20 on p.1 of the attached estate tax form).

The longer part of the return though, is a series of questions (see line 7a on p. 2, and lines 8a, 10, 12a, 12b and 12c on p. 3), such as: Have gift tax returns been filed before? Did you own life insurance not included in the assets (as in an insurance trust)? Did you create trusts during your lifetime? Did you sell an interest in a closely held company to a trust?

The IRS is looking for trusts that, if administered correctly, are **exempt** from estate tax. However, if you did not do everything properly or recordkeeping got sloppy along the way, they can collapse the trust, bring it back into the estate, and add it to the portion that's taxed.

With such trusts, the IRS wants explanations. Was the gift reported? How did the trust get the cash to buy the business? How was it valued? Was there an interfamily loan? Was it paid off with interest and amortized accurately? ***And, of course, they'll say let's see the records. So, the downside to being sloppy or not having a system...48% tax if they find fault with your paperwork.***

In "audits" we've conducted, we found a range of potential problems, such as incorrect and missing records, calculation errors, stock being gifted without the change in ownership entered into the corporate books (so, technically, it didn't happen), and required annual trust payments being made in random order.

If you've put time, effort and professional fees into arranging a complex plan to reduce estate tax exposure, realize that the important part is in the details and processes that take place in the years after you create the plan.

A thorough estate planning audit offers the peace of mind that comes with knowing your financial affairs are in order.

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