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Emerging Markets and the Market

Economic power is shifting from the developed countries to the developing countries. Their economies are now generally on a sounder footing than in the past, and their share prices have risen. However, after every rise eventually comes a fall.

Developing countries grow faster than the developed ones. Emerging markets now account for 30% of the GDP of the world, 50% of the growth, 45% of world exports and 75% of foreign exchange.

Their current boom is on sounder footing than in the past. Their currencies are not overvalued, and because of current account surpluses they no longer depend on the developed world. Their stock markets have also risen, e.g. Brazil's market has risen 900% since 2003.

The emerging economies differ from one another. Thailand, Malaysia, South Korea, Taiwan, and China are on the soundest footing.

Prices of emerging markets must be valued against past prices, not against those of developed countries, since they have a different industrial mix and accounting. Their average p/e is 14.7; historical average 14.

Asset Classes: For November, small growth down 7%, large growth down 3%, mid growth down 4%, large value down 5%, mid value down 5%, small value down 7%, micro down 9%.

Sectors: For November, intl utilities up 2.7%, Swiss frank 2%, Euro 1.4%, healthcare 1%, consumer goods 0%, commodities 0%, gold down 1%, intl comm -2%, steel -2%, metal mining -2%, biotech -3%, aerospace -3%, silver -3%, energy -4%, oil & equipment -4%, industrials -4%, consumer service -4%, real estate -10%.

Foreign Investing: For November Taiwan up 14%, Canada 13% Spain 0%, France 0%, Switzerland down 1%, Euro 50 -1%, Germany -2%, Italy -2%, Europe 350 -3%, frgn lrg div -4%, Malaysia -5%, Devlpt Markets -5%, Hong Kong -5%, Brazil -5%, Netherlands -5%, Latin America -6%, United Kingdom -6%, Mexico -6%, Belgium -7%, Austria -7%, S Africa -8%, Emerging Mrkts -8%, Pac-J -8%, BRIC(Brazil, Russia, India, China) -8%, Singapore -9%

Estate Planning

1. Introduction

A properly drafted Will or Revocable Living Trust is the only way to reduce estate taxes. With the uncertainty of tax laws, Disclaimer Wills should be considered. Proper estate planning involves the use of the marital deduction for both federal and state taxes. Both federal and state taxes allow a beneficiary to disclaim assets. Disclaimed assets can fund a tax saving trust. After a will has been drawn, assets must be arranged so that they conform to the plan. Otherwise, they will not accomplish their goal. Special rules apply to foreign US residents. An alternative to a Will centered estate plan is a revocable Living Trust. There are no tax or lawyer fee advantages to a Living Trust

2. Estate Taxes

Planning to minimize estate taxes is difficult since current estate tax laws can change. Federal estate taxes quickly go to 55%. NY estate taxes add up to an additional 16%, for a total of 71%. The federal estate tax form has now been simplified to only 40 pages! At least you are exempt from filing your own estate tax after your death. However, your heirs must do it.

Estate planning is difficult because of the uncertainty of estate tax rates at death.

If we assume a future federal estate tax exemption of \$3,000,000 per person. A couple could exempt \$6,000,000 if they plan smartly or only \$3,000,000 if not.

The federal estate tax schedule for the taxable estate after the \$2,000,000 exemption in 2007.

| | |
|------------|-----------|
| 10,000 | 1,800 |
| 100,000 | 23,800 |
| 1,000,000 | 345,800 |
| 10,000,000 | 5,140,000 |

NY Estate Tax right now is for the taxable estate after the first \$1,000,000

| | |
|------------|-----------|
| 10,000 | 0 |
| 100,000 | 560 |
| 1,000,000 | 36,560 |
| 10,000,000 | 1,076,720 |

Florida, South Carolina, and Nevada estate tax is designed to absorb the federal estate tax credit for state death taxes. No additional estate tax is imposed.

3. Life Insurance Trusts

Life insurance, if not owned by the insured, escapes federal estate taxes. An irrevocable, non amendable trust is often selected as the beneficiary of the insurance.

4. 529 College Savings Accounts

The NY 529 plan is another way to reduce your estate. The money accumulates federal tax free, and NY state tax deferred. The first \$5,000 (\$10,000 for joint filers) is even tax deductible for NY taxpayers, and the money is removed from the estate. The plan has an owner (e.g. grandparents) and a beneficiary (e.g. grandchildren). The owner of the plan maintains control and can change beneficiaries without tax consequences.

5. Generation Skipping Transfer Tax

In addition to the estate tax, there is a tax on transfers over \$2,000,000 to persons in a generation more than one generation below that of the transferor.

6. Federal Annual Gift Tax Exclusion

The gift tax is paid by the donor, not by the recipient. Outright gifts reduce an estate. There is an annual exclusion of gifts of \$12,000 by any person to anyone. Persons and their spouses can give each \$12,000 tax free to each of their children and their spouses for a total of \$48,000 per year for each child couple.

Appreciated Assets are best held until death. Inherited assets are valued at the higher of cost or value at death, thus escaping capital gains. Gifted assets keep the cost when acquired. The beneficiary however must pay capital gains tax when asset is sold.

Currently New York State has no gift tax but this can change. (I think it will.)

7. Trusts

Trusts are generally taxed much higher than individuals and must meet a large number of requirements to fulfill their purposes. A Trust can be Revocable or Irrevocable. A Revocable Trust must be created during the creator's lifetime. A Revocable Trust does not offer tax relief. A Revocable Trust may become Irrevocable upon the creator's death. Assets transferred to an Irrevocable Trust may be out of the reach of creditors and divorce settlements.

An Irrevocable Trust can be created while you are alive or by will. The creator can manage trusts. The fees for setting up a trust vary from a few hundred to several thousand dollars. Some custodians charge no fee.

Trusts are often used in estate planning. One commonly used strategy is to set up two trusts. One of the trusts is a Bypass Trust; the other is a Marital Trust.

A Bypass Trust can be created through a Will and can be funded by the amount of money that is shielded by the federal estate tax exemptions. These assets are not included in the estate of the second spouse to die. This way the estate tax exemption is preserved, as the trust bypasses the estate tax. If you gave all your assets to your spouse, your estate tax exemption would be lost forever since you transferred assets estate tax free.

8. Disclaimers of Benefits

A Qualified Disclaimer is a refusal to accept a gift or inheritance. If valid under state law it shifts the tax burden away from the disclaimant. The disclaimant does not have to pay any gift or inheritance tax. Disclaimers are of great value since they provide after death flexibility. They can be used to fund a Credit Shelter Trust or benefits for the surviving spouse.

To disclaim can be very useful in tax planning after death. But to be accepted for tax purposes, it must meet certain requirements.

The Disclaimer must be irrevocable and in writing. The disclaimant must not have accepted any part of the disclaimed benefit. The Disclaimer must be delivered by a specified date, 9 months after death or retirement plan benefits. The Disclaimer must be delivered to the correct party.

As a result of the Disclaimer the benefit must pass to someone other than the disclaimant. An exception is the spouse. Even after disclaiming it, benefits can pass to the spouse. The disclaimed property must pass without any direction from the disclaimant. Automatic deposits are not considered acceptance, since no action by the disclaimant is involved.

Taking the minimum required distribution from the plan is not an acceptance of the total value of the plan. A disclaimant can disclaim just a portion of separable property, such as 100 shares of a stock, disclaiming 10 shares and taking 90.

Disclaimers have disadvantages. Beneficiaries can change their mind and not execute a Disclaimer. A Disclaimer may delay distribution of the estate since in certain cases distribution may not proceed until the Disclaimer is executed.

9. Summary

We showed that estate planning is difficult because of the uncertainty of tax rates at death. It can, however, provide significant estate tax benefits. These benefits can generally be preserved by Wills or Living Trusts.