

The Sgroi Financial

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Summer 2000 Newsletter

Planning for Today and Tomorrow

ESTATE PLANNING: Estate Taxes

This is the third of what is becoming a multi part series dealing with the subject of Estate Planning and related topics. This article deals primarily with the subject of the Estate Transfer Tax.

One's estate is defined as the sum of all assets one possesses. It includes such things as your residence and other real estate, stocks, bonds, mutual funds, bank accounts, life insurance policies, annuity contracts, business interests and your personal possessions.

Estate taxes are excise taxes imposed by state and federal governments on assets left to ones heirs. Technically they are not a tax on the assets of the estate themselves, which would probably be unconstitutional, but a tax on the *privilege of transferring property by reason of death*. This is why it is commonly referred to as the Estate Transfer Tax.

Estate taxes are a fairly hot political topic, especially during election years and are often referred to as "The Death Tax". There has been some easing of the estate tax burden over the last several years with the exclusion amount having been increased to it's present level of \$675,000. This means that the first \$675,000 of one's estate may pass to one's heirs without incurring this "Transfer Tax". That amount increases to \$1,000,000 in 2006. In addition, the State of New York now grants the same exclusion as the federal government instead of only exempting \$115,000.

While the raising of the limits represents some much welcome relief, estate taxes can still be quite significant and need to be properly planned for. The chart in the center of the page should help illustrate this point. There are also some basic rules and guidelines that we think will help in your planning.

Assets may be transferred between husband and wife without consequence. For example, if one spouse has

assets in their name alone, and passes away before their partner, those assets may pass to the legal spouse without any estate taxes being incurred. This is termed the *unlimited marital deduction*.

When a married couple's assets start exceeding \$675,000 it is often advisable to draft an estate planning will and start separating assets. This means that their assets are put under the ownership of one spouse or the other. Handled properly, this allows a married couple to effectively double the amount they can protect from the estate transfer tax (i.e. \$675,000 each rather than only one \$675,000 exclusion.)

Another common estate planning strategy involves the gifting of assets while one is still alive. You are allowed to make gifts to any individual of up to \$10,000 per year per person. This allows a married couple to gift

up to \$20,000 per year to a single individual. If the amount of the gifts exceed the annual limits, they are then subject to *Gift Taxes*, which are paid by the donor.

One is also allowed to make *direct tuition payment gifts* and *direct medical expense payment gifts* in excess of the annual limits provided they are paid to the medical or educational institution. In addition, gifts of an unlimited amount may be

given to qualified charitable organizations.

Another point that deserves attention deals with the transfer of qualified retirement plans, such as IRAs, TSAs and 401(k) plans. In addition to being subject to estate taxes, they are also subject to income taxes. This is why the naming of beneficiaries and how they will receive their payments is very important.

In many ways estate planning represents a culmination of our financial planning efforts. It can be very complex and needs to be carefully done. Everyone's circumstances are unique and we are here to help.

Estate Amount	Estate Taxes	Tax Rate
\$675,000	\$0	0%
\$750,000	\$27,750	39%
\$1,000,000	\$125,250	41%
\$1,500,000	\$335,250	45%
\$2,000,000	\$562,250	49%
\$3,000,000	\$1,072,250	55%
\$5,000,000	\$2,172,250	55%

Listen To

"The Sgroi Financial Hour"

Heard Weekly on WWKB - AM 1520

Saturday Mornings from 9:00 to 10:00

Call in with your financial planning questions and join the fun

At (716) 803 - 0321

**H. Joseph Sgroi and Associates is hosting a Client Informational Meeting on
Beneficiary IRAs**

***Gail Buckner*, Vice President of Putnam Investments and former CNBC Anchorwomen will spend the evening discussing one of the most complicated and under-used financial planning tools available to all IRA investors. Learn how your children and possibly grandchildren can defer paying taxes on your IRA proceeds for decades.**

Come join us October 19th from 6:30 p.m. to 9:00 p.m. at:

**Kotecki's Grandview
4685 Seneca Street
West Seneca, NY 14224**

for a night of information and fun.

RSVP: 674-6700. Seating is limited.

A personal letter from Joe

Dear Friend,

With the new school year now in progress (and the Bills season too), I hope that all is well with you and yours.

Following some of the most extreme volatility I have ever witnessed, the stock market continues to show signs of stabilizing. Interest rates have begun to come down; we are seeing this in lower CD rates at the bank as well as lower rates on mortgages and home equity loans. Though I must say, it seems the CD rates came down a little faster than the loan rates. These have been welcome developments after the corrections of last spring.

It has been an emotional time for long term investors, but in the end I believe that we'll be rewarded for our persistence and patience. It seems that investing is one of the few things in life where time is our friend.



Keeping you informed of the major changes in the investment world is an important part of the comprehensive financial planning service we offer you. That is one of the purposes of these newsletters.

Recently, we started our own radio show, "The Sgroi Financial Hour". We broadcast weekly from nine to ten in the morning every Saturday on **WWKB, AM 1520**. Our purpose is to provide honest answers to financial and investment questions. It's a live call in talk show and we are really enjoying it. I invite you to listen and call in with your questions or just to say "hi". The phone number is **803 - 0321**.

In the last issue of our newsletter we wrote about "stretching" your IRA benefits and the advantages of doing so. We are conducting a special seminar on this subject that you won't want to miss. On October 19th you're invited to join us at Kotecki's Grandview Grove at 6:30 pm. Gail Buckner, a former anchor with CNBC, will be the main speaker. Gail is now employed by Putnam Investments and is a nationally renowned expert on this topic. This presentation will be available exclusively to you - the clients of H. Joseph Sgroi and Associates. Seating is limited so please call in and reserve your spot.

I hope that you have found this issue's main article on estate taxes useful. It's a complex subject that effects more than just the "rich". My personal feeling is that our income tax structure is excessively high as it is and to add an additional estate tax of 50% or more and label it a "Transfer Tax" is a scam. Write your congressman and support the repeal of this obscene Estate "Transfer Tax". Both The House and The Senate have passed their own versions of a bill which would completely eliminate this tax by 2011. Now is our chance, so please in this election year, write your congressman.

On a personal note, our youngest son Greg was married on September Third. Betsy and I and all of the family wish him and his new wife Jen only the best. We are confident they'll make a great life for each other.

Best Wishes,

P.S. Mark your calendar for Thursday, 1/25/01. By popular demand we're bringing Leo Wells back for a seminar on Real Estate as a diversification.



Mutual Funds

By Jeffrey Hahn

A mutual fund can be defined as a pool of investors money invested in a diversified portfolio. The portfolio may consist of stocks, bonds or other investment vehicles depending on the objectives of the fund.

Stocks represent ownership of the corporations that issue them. So the fund owns the stock and the investors own the fund. The risk of owning stocks is that they can go down in value or worse, the issuing company can go out of business and their stock be worth nothing. It happens every day

Having our money invested in many different companies reduces the risk. But to further reduce risk and increase our chances of success, the funds we recommend have an expert research and management team, examining the companies our funds invest in. Those managers give us a chance to do better than the market as a whole.

This is why we stay away from "Index Funds", they don't research the companies. We want our funds to beat the indexes.

403(B) Corner

By: John Clouden



Wow! Another summer has come and gone. There never seems to be enough time to enjoy them before they are over.

The end of summer marks the start of another year for our public and private school system employees. This is the time of the year that everyone should consider increasing the amount that is being contributed to their TSA. Our most successful TSA clients review their accounts each and every year with us. In years a pay increase is received, your TSA should also be increased. Tier III and IV employees with 10 years or more of service will not be contributing the 3% to NYSTRS any longer starting 10/2000. What a great opportunity to take this money and either start a TSA or increase it by that same amount. This is money that you have not had in the past and, in all likelihood, would not miss in the future.

Spend some time this fall reviewing your TSA and other investments. Experience tells us that you will be much better off financially when you retire if you do.

Our Office Schedule

Our basic office schedule runs from 8:00 am to 5:30 pm, even though we work a whole lot more.

Evening and weekend appointments may be scheduled with Pat, Jeff or John. (They will also do house-calls when needed).

Joe's schedule tends to be booked well in advance so please try and call ahead. If there is a pressing, immediate need, we will work things out.

Your calls, of course, are always welcome. We are here to serve you and encourage you to call and schedule an appointment at least once a year and whenever needed in between.

Holiday Schedule

Thursday, November 23rd, Thanksgiving

Friday, November 24th

Monday, December 25th, Christmas

Tuesday December 26th

Monday January 1st, 2001, New Years Day

Market Timing

By Patrick Sgroi



Over the past year, I've had many school employees referred to me with questions about the fees being charged on their retirement accounts.

The fees they are inquiring about have to do with an investment philosophy called Market Timing. This philosophy operates under the premise that the company you are invested with will automatically re-allocate your money as it sees fit (buy low and sell high), thus maximizing your returns.

However, the problem with this is that nobody knows when the best times will be. Over the last 10 years, the S&P 500 has grown 300%, but if you were not invested the best 10 days you would have only made 170%. A big difference.

The other problem with market timing is that the client is charged an additional 1-2% / yr management fee on top of the fund loads for this service.

So, if you know anyone who invests this way remind them it's time in the market not timing the market that makes the biggest difference. Thank you.