Trusts save $1000's when settling estates

BY SHEILA MILLER

LITITZ — In last week's column we began the complex look at an estate planning tool called a trust.

We learned that a trust can be used to see that a person's estate can be transferred in special ways to a wife, children, or grandchildren, and that it is a legal tool for cutting he cost of inheritance taxes.

We also heard that inflation will be doubling the value of farm assets in the next ten years if it continues at its present rate.

With the increase in value goes an increase in taxes unless a plan is developed to avoid them.

We looked at the current legislation and found that farm women need to take a closer look at the titling of assets and documenting their unpaid contributions to the successful farming operation, Otherwise, unless the wife can prove she helped in the purchase of the farm and its equipment, most officials assume everything should be in the husband's estate.

This week we will be checking out the Tax Reform Act of 1976 and inflation a bit closer.

The 1976 legislation set up a taxation system which was originally designed to help the small businessman and the farmer. It allowed for a marital deduction when a spouse's estate was settled which permitted half of the adjusted gross estate—or $250,000, which ever was higher—to be exempted from taxation.

At the time, this seemed like the federal law makers were taking a logical step in helping to preserve the small farm and business. Then inflation reared its ugly head and threw a monkey wrench into the works.

What happened was that a farm's assets could not exceed the $500,000 mark in order for the 1976 Act to be of any use.

According to R. Darrell Ford, of Estate Archetypes, Inc. in York, "inflation has grabbed a hold of the small farm and pushed it over the $500,000. The 1976 law which you have been hearing about over the past four years, I predict, is no longer of any benefit to most farmers".

Even if the farm is worth only $500,000, what happens to it after the second spouse dies. We already said the first surviving spouse would be able to claim a marital deduction on 50 percent of the adjusted gross estate of the deceased.

Now the surviving spouse dies, and for the second time in that generation the estate is hit with taxes, both federal and state, and this time there are no marital deduction exemptions.

To avoid this double taxation, Ford recommends that a trust be investigated and set up on an individual operation basis. "For $200-$300 of legal fees for drafting an alternative plan, a farmer can save several hundred thousand dollars on a million dollar estate."

(Turn to Page B3)