



New Law, Strategies and Info to Make You Wealthy or Wealthier

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Knowledge is power. The right kind of new knowledge—if you know what to do with it—is and always will be an economic powerhouse for you and your business.

New Estate Tax Law is Coming

Let's start with some new tax laws Congress is likely to pass before 2009 ends. You must divide these new-tax-law candidates into two distinct groups: the good guys and the bad guys.

First the good guys (clearly great news for the how-to-keep-it fans). The current law (for 2009 only) exempts your first \$3.5 million of net worth from the estate tax (\$7 million for married folks) with the top rate at 45 percent—the rate for 2010 is zero (no tax, even if you are worth a zillion dollars)—and then starting in 2011 a puny \$1 million exemption (\$2 million if married) and a top rate of 55 percent.

Two happy new versions are pending in Congress to replace the current estate tax law: 1) The budget outline passed by the House, which keeps the 2009 exemption (\$3.5 million) and top rate (45 percent). 2) Even better is the Senate's budget outline that raises the exemption to \$5 million (\$10 million for married couples) and lowers the top rate to 35 percent. Applause!

Place your bets. I'll bet the farm that we wind up with at least the House version. A House/Senate compromise (more than \$3.5 million) could happen.

More good stuff: The gift tax exemption (currently at \$1 million) will probably soar to \$3.5 million.

You won't like the bad-guy possibilities: 1) Goodbye to a good old friend, LIFO (if terminated by new law, you'll

probably have five to six years to pay the income tax due). 2) The Washington heads are seriously talking about eliminating the long-standing discount rules (typically in the 35- to 40-percent range) when valuing a closely held business for tax purposes. A terrible and extremely costly tax change.

My advice: If you intend to transfer your business to your kids, don't wait. Take action now.

Now let's take a look at two "How to make it" ideas. Each idea sounds too good to be true, yet each is a rock-solid concept.

Captive Insurance Companies (Captive)

As a business owner, you must carry property and casualty insurance (P&C). Every year you pay your premium dollars (say \$400,000) for your usual coverage: workman's compensation, fire, theft, liability, vehicles and other risks. (Healthcare costs are a separate expense.)

Suppose your claims for the year are only \$100,000. Sorry, but your insurance carrier keeps the \$300,000 excess. Worse yet, it (the premiums you paid significantly exceed your claims) probably happens year after year. But hey, can't complain. That's the way the P&C game is played. Only in a rare year, when your claims exceed premiums paid, does your insurance carrier become a welcome friend.

So here's the real question: Is there some way to keep those excess premiums (premiums you paid less claims paid by your carrier), yet be covered if a catastrophe strikes?

Enter captives. The Internal Revenue Code allows you to form a captive. You, or more likely a younger member(s) of

your family, owns the captive. Say your company pays captive that \$400,000 in premiums, which your company deducts. Here's the beauty of the tax law: Captive not only receives the \$400,000 tax-free but invests it for earnings. Premiums plus earnings (called "unused reserves") are available to pay your claims. A concept called reinsurance covers your company should your unused reserve not be large enough to pay claims.

Wait, there's more. A captive can insure risks that your regular P&C carrier will not insure, for example, loss of a key customer, supplier or employee, product warranties and an endless stream of other similar risks. Same too-good-to-be-true-tax deal: You deduct the premiums, captive receives them tax-free.

Is a captive for you? The answer is "Yes" if your annual before-tax profit is in the \$1 million range.

Premium Financing for Life Insurance is Back

Life insurance is required for many purposes: pay estate taxes, provide for your family, pay debts and, if you know how to do it, life insurance is the best tax-advantaged investment I know of. It's an investment that never loses (death is guaranteed) and your profit (policy proceeds less premiums paid) is tax-free (no income tax, no estate tax).

One problem with life insurance: The blasted stuff costs money for premiums. Is there some way to have your cake (a large amount of life-insurance coverage) and eat it too (no or minimal out-of-pocket costs for premiums)? Because of the current credit crunch, premium financing for life insurance has been on a long vacation. But it's back. Lenders, if you know where to find them, are back in the premium financing game.

How does premium financing work? Instead of you or your trust paying premiums, the lender pays your premiums

(creating a loan). Loan interest can be paid or capitalized (added to the loan). Of course, when you go to heaven, the loan is paid back out of the insurance proceeds, while your heirs get the balance of the insurance coverage tax-free (typically \$5 million or more).

Results: Your family is enriched (tax-free) at your death, while your premium cost during life is zero or miniscule.

If you need a large amount of life insurance (or just want an investment that creates tax-free wealth), premium financing is at the head of the class for "How to make it."

And What About the Future?

The nature of my work (primarily lifetime tax planning that dovetails with your estate plan and related areas) requires me to always keep an eye on what the future economy might look like down the road.

I'm not smart enough to be both a tax guy and an economist, but I read a lot. My favorite and most accurate economic forecaster is Adrian Van Eck (I've been reading his newsletter, "Hotline on Money and the Economy" for about 25 years). He never has missed calling a trend—good or bad—in all of those years.

Here's a recent quote that says it all: "Instead of a new Great Depression, we may now be looking at boom years ahead such as we have not enjoyed for a long time" (May 1, 2009 newsletter).

Don't have room to give you all the reasons, but I'm bullish on the economy turning around. Are you? If so, plan for success. Aggressively seek new business. Tighten your business belt as necessary, but don't downsize.

Most of all, get your lifetime tax plan and your estate plan done. Enjoy strategies that make you wealthy (or wealthier).

Want to learn more about how to make it and keep it? Browse my website, www.taxsecretsofthewealthy.com. Have a question, call Irv at 847/674-5295. **MF**

Die Protection for **Lean** Manufacturing

By Drew Stevens

Error-proofing concepts
for toolmakers and
die designers

This new book from the Precision Metalforming Association is written by long-time die-sensor expert Drew Stevens, who shows readers step by step how to develop modern sensing technologies for the pressroom and apply them to a lean-manufacturing environment. "Slow stamping-press speeds and frequent die crashes are not acceptable," writes Stevens, "and the manufacturers that choose to shift their thinking to new technologies will prevail in the world metalforming market."

To learn how to protect investments by applying sensors in your metalforming operation and support your lean-manufacturing directives, order a copy of Stevens' book today.

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