NAPIER'S NOTES:

A Couple Minutes Is All It Takes.

WINTER 2015, VOL. 23, NO. 1

READING THE TEA LEAVES

"In the future everyone will be world-famous for fifteen minutes."

— Andy Warhol

A few years ago, I was invited to meet a friend's mother. She was visiting the United States from Lebanon. Before our brief meeting ended, she asked to read the inky coffee grounds found at the bottom of my cup. From those coffee grounds, she tried to tell my future.

So like my friend's mother, perhaps you will allow me to read your tea leaves. (Full disclosure: In an effort to meet new friends while in college, I did profess to be a palm-reader.)

1. The federal estate tax may be eliminated. Fewer than 5,000 people annually (or 0.2% of those that die) actually pay an estate tax. The revenues generated annually by the federal estate tax total only about $12 billion. To appreciate how tiny that number is, know that the estate tax generates less than 1% of total federal revenues. Although there are bills on Capitol Hill to eliminate the estate tax, it seems unlikely that the President would sign such a bill. But the next President could sign such a bill.

Before you get too joyful about the possibility of the estate tax being eliminated, note that the estate tax has been eliminated many times before. In fact, the current estate tax is about the sixth estate tax our country has enacted. So even if the current federal estate tax is eliminated, it could be naive to think the estate tax would be permanently eliminated.

Clients' daughter, Eloise, holds court in our conference room at a recent meeting.

2. Your income tax burden will likely increase. How? While tax rates will always fluctuate, attempts will be made to broaden the tax base. We have seen this happen recently with the new 3.8% Net Investment Income Tax (the new healthcare tax). This new tax will soon impact hundreds of thousands of new families every year - orders of magnitude broader than the estate tax, with additional federal revenues to match. Also, do not be surprised if income tax deductions are limited in the future. Politicians have suggested that income tax deductions should be capped at $30,000 or less.

Similarly, there is a real possibility that carryover basis may be enacted. Under the current law, if you inherit Grandma's stock in AT&T, you inherit the stock at its current fair-market value. If the law were to change as suggested in the most recent State of the Union address, you would recognize a capital gains tax on the difference between the fair-market value of the stock and what Grandma paid for the stock.

It has also been suggested by prominent authors and legislators that a value-added tax (VAT) be implemented or that a one-time wealth tax should be used. Either tax would raise substantial revenue.

3. Emigration from Illinois to lower tax states will continue. A recent study noted that 5,000 folks making over $1 million annually left Illinois. Why do they leave? To avoid the income tax, which is now 3.75%. They also leave Illinois to avoid the Illinois estate tax, which can be as high as 16% on assets over $4 million. Recall that your $4 million Illinois estate exemption is reduced by lifetime taxable gifts.

Also, and this is important, Illinois takes the position that if an Illinois resident created an irrevocable trust, the trust beneficiaries will owe Illinois income tax on income generated by that trust - even if the beneficiaries do not live in Illinois! Illinois statues, however, prevent Illinois tax collectors from taking this position if the person that created the trust passes away <u>after</u> emigrating from Illinois.

4. Our clients will continue to get younger.

<u>ANNOUNCEMENT</u>

I recently took the Florida Bar exam and was admitted to the Florida Bar. To better serve our former Illinoisans and clients who winter in the south, we have a new office located at 3033 Riviera Drive, #202, Naples, Florida 34103, Phone (239) 330-4345.