

# ***THERE IS NO CALM AFTER THE STORMS: AN UPDATE ON THE STATUS OF ESTATE TAX REPEAL***

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In light of the recent devastation wrought by hurricanes Katrina and Rita, not to mention the presence of other high-priority issues on the Senate agenda, planned action on the repeal of the estate tax has been put on hold and may not come up for review until next year. We now think there is a good chance that this long-awaited chapter in the book on tax reform will not be completed for many years. The following recent statement from the Senate floor sums it up:

*“A trillion dollar tax break for millionaires should be the last thing on our minds. We have Americans in distress. Let us not worry about making it more comfortable for those who live in the lap of luxury already.”*

While the hurricanes were indeed a tragedy, it remains clear to us that the City of New Orleans and the US Government share a discomfiting trait, i.e., they both have placed themselves in harm’s way by having ignored some very obvious storm risks.

## ***Debt has breeched the fiscal levees...***

Those who have been counting on a full repeal of the estate tax have been asked to move to the back of the line. The pending budget demands on the US Government from hurricanes Katrina and Rita (conservatively estimated at \$200 billion for Katrina alone) have greatly amplified the fiscal concerns of official policymakers who already were questioning the rationale of this particular tax reform in a skyrocketing deficit environment.

“Do the math” is a growing sentiment on Capitol Hill among prudent Republicans and Democrats alike. Even before the most recent natural disasters occurred, a combination of burgeoning military spending, soaring energy costs and record trade deficits had rendered the nation's fiscal condition rather bleak.

The Congressional Budget Office (CBO) recently revised its deficit estimates that were released in early August. The CBO now forecasts a 10-year deficit of \$2.1 trillion (for 2006-2015.) As a point of comparison, when Congress originally passed its massive tax cut in 2001--the package that included the temporary if not permanent estate tax repeal in 2010--there was a projected 10-year surplus of \$5.6 trillion. ***This represents a fiscal swing of nearly \$8 trillion in less than 5 years!*** In the future, you would do well to remember that official Government projections are not to be trusted.

Unsurprisingly, there is a feeling of creeping economic disquietude out there in La-La Land. The Consumer Confidence Index just took its biggest one-month hit in 15 years as many Americans and their small businesses struggled in the aftermath of killer storms and consumers had to cope with record gasoline prices and the specter of record heating costs this Winter.

Recently, a proposal was made to set an estate tax exemption at a level \$3.5 million with a top tax rate of 15%. **Revenue estimates calculated by pro-reform groups suggest that a \$3.5 million exemption and a 15% top tax rate would cost the US Government over \$600 billion in tax revenues from 2011-2020.** Quite simply, the US Government can no longer afford to give up this piece of the revenue pie and has no choice but to burden taxpayers with an increasing share of the load.

Following the 2001 tax cut, a question we and others repeatedly have asked is “How can this nation justify much less absorb this sort of a revenue cut when it spares only the wealthiest taxpayers?” It can’t! **We have stated unequivocally that existing tax laws recognize and provide methods by which wealthy taxpayers can preserve their wealth from excessive taxation. It just requires an effort, which many seem to feel is an unjust imposition on their time.** That sort of thinking reflects a feeling of entitlement, i.e., Big Brother should wave its magic wand and make our problems disappear. This multi-generational attitude of entitlement is tantamount to a national epidemic that has spawned the massive deficits that now threaten our accepted way of life.

Today, make no mistake that the chickens are coming home to roost and there isn’t enough chicken feed to spread around the barnyard. You need to position yourself accordingly!

### ***Get ready for the next storm...***

If and when Congress gets back to considering the estate tax repeal, we suspect that they will be giving ample thought to a sustainable estate tax policy and not the elimination of the estate tax. *[Keep in mind that any action by Congress to repeal the Federal estate tax more than likely will spur a reaction by the states to impose their own estate taxes].*

We have worked for many years actively helping clients with sophisticated, multi-decade plans to assure preservation of assets and continuation of businesses, farms and other enterprises. Since 2001, we have gotten a whiff of tax reform measures that serve political agendas. Due to massive Federal deficits, the traction is now slipping. From a planning standpoint, it is best to avoid the feast or famine scenarios of dramatic tax reforms and their eventual repeals and have consistent and sustainable tax laws that enable clients to take steady aim at their important financial objectives.

Let us emphasize one more time that estate tax repeal or reform with a high exemption level and low tax rate would be unsustainable for the long-term. The existing and projected Federal deficits simply are too large to allow any revenue compression. Not only will the reconstruction of the Gulf Coast and the various military priorities both at home and abroad place a premium on Federal revenue collection, but we are rapidly approaching the time when the US Government will need to start paying future Social Security and Medicare benefits to the aging Baby Boomers numbering some 80 million.

We will continue to keep you apprised of developments on this issue. Meanwhile, there is every reason for you to become proactive in preserving and protecting your wealth. Like the frog in the pot of simmering water enjoying his warm bath, we are on the threshold of a boiling cauldron that will turn us into the main course...unless we have the foresight to jump to safety while there is still time.

What can you do tomorrow to get ready for the next storm? Get evaluated for an estate plan and an asset protection plan. This can be as simple as establishing wills. However, if your assets exceed \$1,500,000 and/or your personal and business assets may be exposed to creditor claims or judgments, you will need something much more comprehensive.

Engineering a well-constructed plan can take several weeks or months. Championship Financial Advisors is one of a number of highly-qualified firms that can help you get started. We invite you to contact us.

*September 30, 2005*

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