Leaving a Legacy

Most physicians have financial visions beyond their own personal needs. Such goals can often be attained through charitable giving and estate planning. The time to start is now: By volunteering your time and giving now, you can actually see the benefits of your generosity.

Fast Facts

- *Volunteering on a nonprofit board is a great way to share your talents and work for a worthy cause. But it's a good idea to research the organization before signing on to serve. Page 95.*
- *If you're over 70½ and looking for a tax deduction, you might consider rolling over your IRA to the charity of your choice. A new law makes this possible, but it's due to expire at the end of this year. Page 96.*
- *Estate planning can ensure that the legacy you build in your lifetime continues after your death. A good estate plan includes a will, advance directives, and often a type of trust. Page 102*

According to the National Center for Charitable Statistics, the average taxpayer donates 2.5 percent of his or her adjusted gross income (AGI) to charitable organizations each year. However, many people—and many physicians—give much more than that.

The IRS allows taxpayers to give as much as 20 to 50 percent of their AGI and receive tax benefits. However, recent changes in tax law make record-keeping even more important than before. As of 2007, all cash contributions must be substantiated, even small ones.

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"You can support these deductions with a bank record, such as a canceled check," says Richard Vitale, who heads Vitale, Caturano & Company, an accounting firm in Boston. "Alternatively, you'll need a detailed receipt from the charity or nonprofit organization receiving the donation."

Formerly, cash contributions of under $250 were easier to support. In addition to a canceled check or an acknowledgment letter from the charity, a personal log was acceptable. Moreover, multiple contributions to the same charity were not combined to ensure that you stayed within the $250 limit.

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Suppose, for example, you went to church every Sunday and put a $50 bill in the collection plate. You could go home and record those donations in a diary. If you had 40 of those entries by the end of the year, you could claim a $2,000 charitable deduction.

"Now this procedure will not be sufficient to support a charitable deduction," says Mr. Vitale. Instead, you'll need a bank record or some form of communication from the charity showing the organization's name, date of donation, and the amount. This may not be practical for very small contributions, however.

Thus, you should not donate actual cash to your church or other charities. Give checks instead. You also can make pledges or hand over IOUs for small amounts, then redeem those promises with a check that can substantiate the contribution for your records.

Under another recent change in tax law, donations of used items such as clothing, housewares, and furniture will provide tax deductions only if the items are in "good used condition or better."

The law does not define the term, "good used condition or better," but it probably means that the donated items can reasonably be used or sold. Therefore, you should attempt to substantiate that any items you donate are in decent condition. Take photos of garments or furniture before making charitable contributions, for example. Put a date on those photos and keep them in your

tax file in case they're needed.

"The 'good used condition or better' rule does not apply for donations of any single item where the claimed value is over $500," says Mr. Vitale. This claim must be supported by an appraisal from a qualified, unrelated party and must be accompanied by IRS Form 8283, filed with your tax return. A qualified appraiser can be someone who regularly performs appraisals of the type of property in question.

While those new rules have become effective, prior law still applies to cash contributions of $250 or more. You must get a written acknowledgment from the charity, reporting the amount and date of the donation. The charity must state whether any goods or services were provided to you in return, and you must place a value on those goods or services.

The Gift of Time

Another way to contribute to the community is to serve on the board of a nonprofit organization. There are many types of nonprofits, and the role of board members can vary widely from one to another. Nevertheless, you should keep some general principles in mind before agreeing to serve on a nonprofit board.

First, consider the organization. Is its mission aligned with your personal values? You should agree with its goals before you commit your time, money, and professional reputation.

Second, learn about the workings of the nonprofit. Visit its Website, and read over published reports from the nonprofit, including its annual report. Reading about an organization's management, donors, and volunteers will give you a sense of whether the nonprofit is accomplishing its goals. A visit to *www.guidestar.org* also will reveal a great deal of information about specific nonprofits, including financial data.

After you have become comfortable with a nonprofit's mission and finances, you can evaluate the role you'll be asked to play. You can expect, for example, to attend regular board meetings and to prepare for them. You also may be expected to attend committee meetings and special events sponsored by the organization. Spending a couple of hours a month to help a worthwhile cause is one thing. However, if the time demands expand to five or 10 hours a month, you may consider carefully the commitment.

You may also be expected to help with fundraising—including asking friends and associates for donations and contributing money yourself. Some physicians excel in this area; others cringe at the idea.

You also should be aware that there may be legal and financial risks from serving on a nonprofit board. Before agreeing to serve on a board, you should make sure that directors' and officers' liability insurance is in place. Ask your lawyer to review the policy before you accept an appointment to the board.

The above list—time commitments, money commitments, liability—may seem daunting. Nonetheless, many successful physicians serve on nonprofit boards and value the experience.

Not only will you have the satisfaction of aiding a worthy cause, but you may also derive personal benefits by interacting with prominent members of your community. Serving on the board of a nonprofit group you support can be immensely satisfying, especially if you help the organization to achieve its goals.

Donating items, cash, and time is not the only way to give to your favorite charitable organizations. Another new law permits "charitable IRA rollovers," at least for now. Money from an IRA can go directly to a charity. You must be at least 70½ years old to execute a charitable IRA rollover. No more than $100,000 can be rolled over in 2007, after which this tax benefit is scheduled to expire.

Therefore, your best strategy may be to join a nonprofit board where you feel you can make a difference. Look for an organization where you'll be enthusiastic about the mission.

IRA Rollovers

Donating items, cash, and time is not the only way to give to your favorite charitable organizations. Another new law permits "charitable IRA rollovers," at least for now. Money from an IRA can go directly to a charity. You must be at least 70½ years old to execute a charitable IRA rollover. No more than $100,000 can be rolled over in 2007, after which this tax benefit is scheduled to expire.

If you or your parent implements such a rollover, no taxable income will be recognized and no charitable deduction can be

claimed. "A qualified charitable distribution should count towards fulfilling the individual's minimum required distribution (MRD) because it is a distribution, and there is nothing that says that it doesn't count," says Natalie Choate, an attorney with Bingham McCutchen, a law firm in Boston.

Therefore, this new law would permit a hypothetical Dr. King to donate up to $100,000 from her IRA to her medical school this year. (That assumes she makes this donation after reaching age 70½.) That might fulfill her philanthropic intent and her MRD obligation for the year.

What's more, that $100,000 can be withdrawn without incurring any tax obligation. In effect, Dr. King's AGI will be $100,000 lower than it would have been under prior law.

Such a reduction in AGI may have many tax-reducing benefits for Dr. King. To give some examples, she might reduce the taxability of her Social Security benefits, increase the amount she can deduct for medical expenses and miscellaneous itemized deductions, and increase her passive loss deductions.

Although there can be tax benefits to this provision, you should proceed with caution.

Under the new law, qualifying charitable distributions must go directly to a charity without a stopover in the IRA owner's pocket. If Dr. King has her IRA at a brokerage firm, her broker must send a check directly to her alma mater.

If the broker sends Dr. King a check for $100,000 and she then writes a check to the medical school, she will have to recognize $100,000 in taxable income this year and take whatever deduction she can claim, which might not fully offset the taxable income she'll recognize.

What's more, the check her IRA custodian sends to the school on her behalf should identify her by name and address. That's because the usual rules apply for substantiating charitable contributions. "If you ask to have money distributed from an IRA to a charity," says Ms. Choate, "you'll want some assurance that the charity will know where to send the required acknowledgment letter."

To get that assurance, you can write to the IRA custodian. Formally request a charitable IRA rollover and ask that the charity be given your name and address, as the donor of record. You also should write to each charity, informing each recipient that a con-

tribution is on the way from your IRA via your IRA custodian. Ask that the charity send you a letter at a specified address, acknowledging the gift.

Donor-advised Funds

Charitable IRA rollovers are not permitted to donor-advised funds, which are a low-cost, flexible vehicle to facilitate charitable giving. Nevertheless, such funds—which are offered by many local community foundations and by most large financial institutions—can be helpful if you have charitable intentions.

Suppose, for example, a Dr. Johnson has $50,000 worth of appreciated stock. He can donate those shares to his local community foundation’s donor-advised fund. Assuming Dr. Johnson has held the shares for more than 12 months, he’ll get a $50,000 charitable deduction for 2007 that he might or might not be able to use completely, depending on his income for the year. (Deductions that can’t be taken right away can be deducted during the next five years if the ratio of those deductions to Dr. Johnson’s income is within tax code limits.)

The donor-advised fund can sell the appreciated shares without owing tax and deposit the $50,000 sales proceeds in Dr. Johnson’s personal account there. When Dr. Johnson wants to make a charitable contribution, he can make a request for a specific grant. The community foundation or financial institution sponsoring the donor-advised funds can check on the charity’s tax-exempt status and send along a check, stating that the money is from Dr Johnson’s account.

What’s more, Dr. Johnson won’t be under pressure to meet a year-end deadline. “As long as the contribution to the donor-advised fund is completed this year, he can take a tax deduction in 2007,” says Elfrena Foord of Foord, Van Bruggen, Ebersole & Pajak, a financial planning firm in Sacramento, Calif. “As long as there is money in Dr. Johnson’s account, donations to his selected charities can be made in 2008 and later years.”

Give and Take

Some charitable techniques will provide you with more than philanthropic satisfaction and a tax break. You may receive income, too. “With a charitable gift annuity, you give assets to a

charity or nonprofit organization in return for a stream of cash flow," says Gloria Neuwirth, partner in the New York City law firm Davidson, Dawson & Clark.

The payments from a charitable gift annuity (CGA) can continue for the rest of your life. If you wish, the annuity can cover your spouse's life, too.

Either way, the payments from a CGA are fixed at rates that are relatively low. You probably can get a higher payout with an annuity from an insurance company. However, a CGA will generate tax benefits and allow you to support a favorite charity or nonprofit organization.

"Many charities use a table from the American Council on Gift Annuities (ACGA) to set rates," says Ms. Neuwirth. The ACGA rates, in effect through June 2007, can be seen at www.acga-web.org by clicking on "Gift Annuity Rates."

The older you are, the larger your payments will be, as a percentage of your contribution. Say your nearest birthday is 65 when you make your donation. You would get 6%, on the ACGA table. On a $200,000 gift, you would receive $12,000 a year for the rest of your life. At age 75, that same $200,000 gift would result in a payout of 7.1%: $14,200 a year.

A joint annuity would generate a lower payout than a single-life annuity. If you and your spouse are both age 65, the annual payout would be 5.6% on the current ACGA table.

The money received from a CGA will be taxed like many other annuities. Part of each payment will be a tax-free return of your

Current Rates Set by the American Council on Gift Annuities

Donor's age	Rate
60	5.7%
65	6.0%
70	6.5%
75	7.1%
80	8.0%
85	9.5%

Source: http://www.acga-web.org.

contribution, and part will be taxable ordinary income. If you donate appreciated assets held for longer than a year, a portion of the payout will be taxed at favorable long-term capital gains rates.

You'd also get an immediate income tax deduction for a charitable gift. However, you would not get, say, a $200,000 tax deduction for a $200,000 donation. Instead, a present value will be placed on the expected annuity payments, based on the life expectancy of the recipients as well as the current level of interest rates. This present value will be subtracted from the value of the assets given away. "If you donate appreciated assets held more than a year, the current value will be used," says Ms. Neuwirth. With a shorter holding period, the amount you paid for the assets will be the value.

Many successful physicians want to include some philanthropy in their estate plans; so they make charitable bequests. "Most of those bequests are specified as donations of cash, stocks, or real estate," says Harry Rubins, financial consultant. "Those usually are the wrong assets to give away at this time if you also have IRAs, 401(k)s, or other tax-deferred accounts."

The difference between the present value of what you'll get and the value of what you're giving is the amount of your charitable deduction. Suppose a married couple, both age 75, buy a CGA for $200,000. At current ACGA rates, they would receive $12,600 a year from the annuity. In addition, they would get a charitable tax deduction of about $80,000.

When you donate appreciated assets, your charitable deductions can't exceed 30% of your AGI. Therefore, this couple might not be able to deduct the entire amount in the year of the donation. In that case, donations they can't deduct right away may be carried forward up to five years.

If you think that might be a problem, you can stagger your donations. Arrange for one gift annuity now and get a tax deduction you'll be able to use up in six years, considering your projected income. After six years, you can fund another gift annuity for a new round of deductions. And so on.

Bright Bequests

Many successful physicians want to include some philanthropy in their estate plans; so they make charitable bequests.

"Most of those bequests are specified as donations of cash, stocks, or real estate," says Harry Rubins, a financial consultant in Santa Rosa, Calif. "Those usually are the wrong assets to give away at this time if you also have IRAs, 401(k)s, or other tax-deferred accounts."

For tax efficiency, it is better to name the charity as beneficiary of your IRA or other tax-deferred account. While you give assets from your IRA to charity, you can retain appreciated assets that can be left to your heirs, tax free.

A simplified example can explain the process. Suppose Dr. Young is a widow with a total estate of $3 million. Half of that amount is in an IRA, and the other half is in appreciated securities and real estate.

Dr. Young wants to leave $1.5 million to her children and $1.5 million to her medical school. Because making a $1.5 million charitable gift will bring her estate down to $1.5 million, no federal estate tax will be due under current law.

However, that shelter may not extend to income tax. If the appreciated assets are left to the medical school while the IRA goes to Dr. Young's children, the beneficiaries eventually will have to pay income tax on the money as it comes out of the IRA.

With Dr. Young's IRA, her children will inherit not only the IRA, but also all the deferred income tax that she never paid. Assuming a 35% income tax rate, Dr. Young's heirs actually will inherit the equivalent of $975,000, not $1.5 million; the $975,000 is what they'd get if they needed the cash immediately after their mother's death.

As mentioned, Dr. Young would benefit her children by leaving her IRA to charity and bequeathing to them the appreciated assets. Either way, there will be no estate tax; but her children can inherit the appreciated assets with a step-up in basis.

With this basis step-up, no income tax will be due on the appreciation during Dr. Young's lifetime. The heirs can sell the assets right away, if they wish, and pocket the full $1.5 million.

An outright bequest is the simplest way to donate your IRA. You'd name a charity or charities as the beneficiary of your IRA. At your death, the money is distributed to the charity. (Mr. Rubins says that IRA owners should check with state law to see if their spouse's consent to this choice of beneficiary is necessary.)

Often, naming a charity as IRA beneficiary makes sense if the donor is not married or if the bequest is relatively small. Making a large bequest might upset your spouse if other assets are modest.

Suppose you want to leave something to charity, but not the entire IRA. One tactic is to name multiple beneficiaries of your IRA, including a charity. Your IRA beneficiary form might specify that 40% will go to your son, 40% to your daughter, and 20% to your medical school.

"Most IRA owners prefer to manage only one account; so they name multiple beneficiaries," says Mr. Rubins. "This approach is simpler for the IRA owner but can cause tax problems for the heirs."

That is, the other beneficiaries might lose valuable tax deferral if the paperwork is not handled correctly. "If a charitable beneficiary is not paid out by September 30 of the year after the IRA owner's death, distribution options for the remaining beneficiaries are limited; and early taxable distributions might result," says Mr. Rubins.

To avoid this loss of tax deferral, a charitable beneficiary will have to be cashed out by September 30 of the year after death. For example, if the medical school were to get 20% of an IRA that turns out to hold $850,000, a check for $170,200 could be paid from the IRA to the school, ending its presence in the lives of the other beneficiaries.

Another strategy is to split your IRA while you're alive. With, say, an $850,000 IRA, you could transfer $150,000 to a new IRA and name a charity as the sole beneficiary of that new IRA.

Estate Planning

Donating your time and money to charity can help you leave a legacy of which you can be proud. At the same time, your priorities should include appropriate transfers of your wealth to your family and other loved ones.

To ensure a smooth wealth transfer, you should start by executing a will. If you die without a will, you die "intestate," and your assets will be distributed under state law. That distribution probably will not be exactly the plan you'd choose.

For example, some state laws require that 50% of a decedent's assets go to a surviving spouse and the other 50% to the children, or to other next-of-kin such as parents or siblings. Losing half of

your assets might make things difficult for your surviving spouse.

Therefore, you should have a will, one that includes several vital elements. For instance, in your will you'll name an executor or "personal representative," the person who'll oversee the transfer of the assets that pass under your will. Be sure to get that person's consent to serve before naming an executor. Name at least one backup in case your first choice of executor is unable or unwilling to serve.

If you have children who are still minors, you should use your will to name guardians of those minors in case neither parent is alive. Again, get the guardians' advance consent and name backup guardians.

After you execute a will, don't put it in a drawer and forget about it. As your personal life evolves through births, deaths, marriages, or divorces, your will may need to be revised.

Although having a will is important, it is just one piece of a larger estate plan. If you become incapacitated because of illness, injury, or old age, you may make bad decisions and wind up impoverished. Nothing you can put in a will can authorize someone else to manage your finances for you. Similarly, a will won't keep your heirs from squandering the money they inherit or losing it in a divorce settlement if a marriage fails.

To protect yourself and your heirs, you can create a trust while you are alive. Then you can move most of your assets from your own name to the trust.

When you move assets into a trust, you might start by naming yourself as trustee so you can continue to control the trust assets. Name a co-trustee or a successor trustee, too, so that someone else will be responsible for managing the trust assets if you can't.

After assets are transferred to a trust, they no longer belong to you personally. They will not be included in your estate at your death; so they won't be subject to the time and expense of probate. Instead, the trust assets will pass directly to the heirs you've chosen under the trust document.

A trust you create during your lifetime can be revocable or irrevocable. A revocable trust is one of which you can be the initial trustee, as mentioned above. If you change your mind for any reason, you can cancel the trust and take the assets back into your own name. With an irrevocable trust you can't reclaim the

assets, and you will not necessarily be the trustee.

Why would you want to move assets beyond your own reach? For one reason, once assets are transferred to an irrevocable trust, out of your control, they may be out of the reach of creditors. That might include spouses in divorce settlements, too.

In addition, assets in an irrevocable trust may not be subject to estate tax at your death. Many sophisticated plans to reduce estate tax involve the use of irrevocable trusts.

Besides a will and possibly a trust, your estate plan should include a power of attorney: a document that gives someone else the authority to handle your finances for you. As the person creating this document, you are known as the principal. The person to whom you give the power is known as your agent, or attorney-in-fact.

Besides a will and possibly a trust, your estate plan should include a power of attorney: a document that gives someone else the authority to handle your finances for you. As the person creating this document, you are known as the principal. The person to whom you give the power is known as your agent, or attorney-in-fact.

For estate planning purposes, keep in mind that a regular or "general" power of attorney becomes invalid if the principal is incompetent. Such a power of attorney won't be much help if you become incapacitated and need help managing your finances. To protect your assets in this situation, use a "durable" power of attorney. "A durable power will remain in effect if the principal becomes incompetent," says Martin Finn of Lavelle & Finn, a law firm in Latham, N.Y.

Another tactic is to use a "springing" durable power of attorney. Such a power won't take effect at the time it's executed; so your agent will not be able to access your financial accounts. Instead, this document "springs" into effect when specified events occur. For example, a doctor might have to formally attest that you are incapable of managing your own affairs.

Advance Directives

Although it has been a while since the death of Terri Schiavo, you should incorporate the lessons learned from that controversy into your estate plan. In the unlikely case you or your spouse

should wind up dependent on a feeding tube, you won't want relatives battling over your fate. Such an episode not only would create dissension within your family, it also could lead to costly medical and legal bills.

To avert such problems, make sure that your estate plan includes end-of-life documents. "Without such documents, your loved ones may have to make difficult decisions without any guidance from you," says Gideon Rothschild, partner in the law firm Moses & Singer, New York City.

To begin with, you should execute a living will. This is a different document from the one described above, the will that states how your assets are to be distributed. "Instead, a living will can contain your desires regarding life-sustaining efforts," says Mr. Rothschild.

A living will allows you to state what you'd like to be done if you have a terminal medical condition. To conform to state law, a living will must be signed and witnessed.

As physicians know all too well, a sudden illness or a serious injury can occur without warning. You could wind up in a coma that might seem irreversible. In a living will, you can instruct doctors and hospitals whether you'd want life-sustaining procedures. Such a document will have much more impact than any verbal statements you might have made.

A living will is known as an "advance directive" because you're providing directions for your care in advance of a time when such information might be needed. Another type of advance directive is a healthcare proxy, also known as a power of attorney for health care. This document enables you to name someone who can make decisions about your medical care if you can't make them yourself.

One option is to name your spouse as the agent on your healthcare proxy, but your spouse may be too upset to make such decisions. Instead, consider designating a relative or a close friend. The key is to choose someone who is familiar with your thoughts on these matters.

In fact, you may choose to name another physician. Another doctor will have extensive knowledge of medical care and may be able to make unemotional, rational decisions about your care.

As always, you should select a replacement if your first choice

is not available. Get the consent of both your primary and secondary agents before drawing up your healthcare proxy.

Moreover, your healthcare proxy should specifically permit the release of your medical history to your agent and the backup. These people might need this information to make medically sound decisions. As you may know, without explicit authorization, federal law might prohibit the release of a patient's records.

Taxing Decisions

Once the basic documents are in place, estate planning can focus on estate tax planning. Under current law, the federal estate tax exemption is $2 million. It will increase to $3.5 million in 2009, become unlimited in 2010, and revert to $1 million thereafter. Larger estates are now taxed at 45%, but that rate is supposed to go back to 55% in 2011 (plus a 5% surcharge on some estates).

Decedents can leave unlimited amounts to a spouse and to charity, free of estate tax. Those provisions probably will remain in effect, no matter how the estate tax law is changed. Therefore, the federal estate tax exemption is the amount you can leave to others, besides a spouse and charity. Now that amount is $2 million.

Suppose a doctor dies in 2007 and leaves $4 million to his son. His bequest is $2 million over the exemption amount; so his estate would owe $900,000 in federal estate tax: 45% of $2 million. His estate might owe state tax, too, depending on where he lived.

However, current law allows a married couple to leave up to $4 million to their children and other heirs, free of estate tax.

To see how this works, suppose a Dr. Davis and her spouse have a total of $4 million worth of assets. That would include their house, a second home, IRAs, bank accounts, securities, etc. Dr. Davis's spouse might die first and leave $2 million to their children.

If Dr. Davis also dies with $2 million in assets, their children could receive another $2 million, so they'd have a total inheritance of $4 million, and no federal estate tax would be due.

Although the above example seems straightforward, problems can arise. This couple's assets might not be titled in the right manner, for maximum estate tax shelter.

It is possible that Dr. Davis and her spouse hold $3 million worth of assets in joint tenancy, with right of survivorship. The

other $1 million might consist of two $500,000 IRAs, of which each spouse has named the other as beneficiary.

As above, assume Dr. Davis's spouse dies first. Dr. Davis will automatically become the sole owner of their jointly held assets; she also will inherit her spouse's IRA. If Dr. Davis should die soon after her spouse, she will be holding all of the couple's $4 million in assets.

If this occurs in 2008, with no change in the law, Dr. Davis's estate will be $4 million—$2 million over the exemption amount—and her estate will owe $900,000 in federal estate tax at a 45% rate. Another potential problem is that the estate may not leave ample funds for the surviving spouse. Suppose, in the above example, Dr. Davis had just retired when her spouse died. She is young and in good health. Reasonably, she expects to live without earned income for many years. Even if Dr. Davis has $2 million in assets after her spouse's death, that might not be enough to permit her to enjoy the retirement lifestyle she had expected. In essence, she might not want her spouse's $2 million to pass to their children right away.

Once the basic documents are in place, estate planning can focus on estate tax planning. Under current law, the federal estate tax exemption is $2 million. It will increase to $3.5 million in 2009, become unlimited in 2010, and revert to $1 million thereafter.

To get the best of both worlds, Dr. Davis and her spouse might use a "bypass" trust. In this example, her spouse would leave $2 million to a trust where the trust beneficiaries include Dr. Davis and their children. This bequest to the trust can use up the $2 million estate tax exemption at the first death. At Dr. Davis' death, the trust assets will not be included in her estate; so they will "bypass" estate tax again. Dr. Davis can leave her $2 million to the children; so the couple's entire $4 million of assets can be passed on, free of estate tax.

As mentioned, Dr. Davis is among the beneficiaries of the bypass trust. Thus, the trustee will be able to provide her with funds from the trust, if necessary, and Dr. Davis is less likely to run short of funds over a lengthy retirement.

Another astute estate tax strategy is to use a QTIP (qualified

terminable interest property) arrangement, such as a QTIP trust. Typically, the first spouse to die leaves assets to a QTIP trust. "The surviving spouse is the lifetime beneficiary of payouts from this trust," says Ed Slott, a CPA in Rockville Centre, N.Y., who publishes the newsletter *Ed Slott's IRA Advisor*. "Assets left to a QTIP trust avoid estate tax on the first death."

At the survivor's death, any assets left in the trust are included in her taxable estate. However, the assets left in the trust at the survivor's death (known as the "remainder") will go to beneficiaries named by the spouse who dies first, not by the survivor.

"Therefore," says Mr. Slott, "QTIP trusts frequently are used in remarriages. The surviving spouse gets cash flow for life while the trust creator's children from a previous marriage can get any remainder."

As mentioned, one estate tax shelter is to transfer assets to an irrevocable trust. For extended tax benefits, you can set up a trust in a state that allows trusts to last for many years, even centuries. "The benefits of such 'dynasty' trusts may be extended over many future generations," says Mr. Rothschild.

If a Dr. White transfers assets to a dynasty trust, those assets may not be subject to estate tax at his death. Dr. White's son, a beneficiary of the trust, might die 40 years after that. Again, no estate tax will be due on trust assets. This might go on for generations, even if the original trust assets keep growing to the point where they reach millions of dollars.

Assets in a dynasty trust also might be out of the reach of creditors. For example, Dr. White's son might lose a lawsuit. Even if his personal assets are awarded to the plaintiff, the assets held in the dynasty trust may remain there.

Similar protection might keep the trust assets from being exposed to divorce settlements or bankruptcy filings, as well.

The trust assets might be beyond the reach of tax collectors and creditors, but those funds can still support Dr. White's descendants, the trust beneficiaries. The trustee might distribute money to Dr. White's daughter to help her buy a home. If Dr. White's grandson is accepted to a medical school, education funds can come from the trust. In essence, a dynasty trust acts as a "friendly bank" for Dr. White's descendants; yet the trust assets will not be diminished by estate tax or payments to creditors.

No Need to Wait

Another strategy commonly used to reduce estate tax is making gifts to loved ones. If you know the rules, you can reduce your taxable estate without any gift tax consequences. For example, you are allowed to make unlimited payments for someone else's medical bills or education tuition.

Suppose a Dr. Green has two grown children. In 2007, those children incur a total of $15,000 in unreimbursed medical expenses. Dr. Green can pay those bills, reducing his estate by $15,000, without worrying about the gift tax.

Also suppose that Dr. Green has four grandchildren who are in private school and college. Their total tuition bills are $80,000 this year. Dr. Green can pay those tuition bills, reducing his estate by $80,000, without triggering a gift tax. To take advantage of the gift tax exceptions for medical and tuition payments, Dr. Green must send the payments directly to the healthcare providers and to the schools.

In addition to the so-called "med-ed" gift tax breaks mentioned above, you can make unlimited gifts to a spouse and to charity, tax free. Moreover, an annual gift tax exclusion allows you to make other transfers, too.

In 2007, the annual gift tax exclusion is $12,000 per recipient per year. This amount will increase every few years to $13,000, $14,000, etc., as the cost of living rises.

In the above example, then, Dr. Green can make medical and education payments and also give up to $12,000 worth of assets to his son and to his daughter this year. He also can give $12,000 to each of his four grandchildren. Making lifetime gifts to children and grandchildren (or perhaps nieces and nephews) may have multiple advantages. Yes, you may derive some satisfaction from knowing that your survivors will owe less tax. Perhaps more important, you'll be around to see your loved ones benefit from the gifts you've made, gifts that can provide anything from a fine education to a new home. You can provide a legacy while you're still around to see the happy returns!