

# Poor planning by celebs can lead to lesser inheritance

**A**fter the Academy Awards, my wife asked me if I had heard that both James Gandolfini and Philip Seymour Hoffman had passed away recently.

I told her yes, and it was unfortunate for their families — not just because of the loss of a loved one and breadwinner, but because poor estate planning will impose an unnecessary disintegration of their heirs' inheritance.

"What do you mean?" my wife asked.

After reading numerous articles on both men that revealed some financial details, I told her I noticed that both could have planned more wisely.

First, since Mr. Hoffman was not married to the mother of his three children, he was unable to use the classic "marital deduction" to avoid all estate taxes when the first of two spouses dies. Therefore, he could have been creative and careful in protecting his heirs. He could have set up trusts to protect them. Especially early in his career, he could have assigned certain of his properties to trusts, which would have exploded in value as his career ascended.

The properties in the trusts would be insulated from estate taxes, as well as creditor claims, and his family would now be able to rely on the trust assets for income. Instead, roughly half of the assets in his estate will be eroded by taxes and costs.

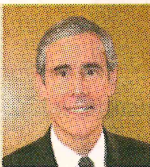
Second, Mr. Hoffman would have been prudent to name future born children in the trusts he prepared eight years before he died. As it was, Mr. Hoffman named only the child born at the time he created his plan as a beneficiary of his estate. Since then, he had two other children who are not named.

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**BY RICHARD A.**

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It is unclear whether the other two children will inherit, and that always leads to controversy, court fights, and legal fees which further diminishes the estate.

It would have been best if the plan he created was drawn forward-looking and flexible, to account for circumstances both foreseeable and unforeseeable.

"What about Mr. Gandolfini? Was he married?" my wife asked.

I answered that, yes, he was married, but he only passed 20 percent of his estate to his wife. The other 80 percent went to other relatives. Again, that 80 percent will be subject to the severe, destructive force of estate taxes.

Mr. Gandolfini would have been smart to purchase life insurance early in his career. That way, that would pay for the foreseeable estate taxes he knew were to be incurred, since he intended to pass his estate to beneficiaries in a way that would incur grave estate tax costs.

Most importantly, the insurance should have been acquired in an irrevocable life insurance trust. Doing so would prevent the insurance proceeds themselves from being included in the taxable estate.

More importantly, I heard that Mr. Gandolfini's estate was worth \$70 million. There are many sophisticated tools that could have been used to avoid incurring the nearly \$30 million of estate taxes, and still protect the inheritance he wished to pass to his family.

"So, have we done proper planning for our kids?" my wife asked.

That, my dear, is a whole other subject.

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