

STRATEGIC TAX PLANNING PARTNERSHIP

International & UK Tax Consultants

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MICHAEL JACKSON'S ESTATE AND THE FORGOTTEN FEDERAL ESTATE TAX!

Whilst everyone around the World is captivated by the Michael Jackson tragedy, the content of his Will and the value of his Estate; an important factor has been largely overlooked by both the Media and sadly probably Michael Jackson himself!

The fact that at first no-one could find a Will points to a lack of any Tax planning for US Federal Estate Tax (the equivalent of UK's Inheritance Tax). Whilst the US has comparatively low rates of Income and Capital Gains Tax, Federal Estate Tax is relatively high at 45%. As Michael Jackson was not married at the time of his death, there is no spouse exemption (that could have avoided any Estate Tax on his death). There is a \$3.5 million exempt amount and after that the Federal Estate Tax rate is 45%! (compared to 40% for UK Inheritance Tax). The State of California has no State Estate Tax but has high probate fees, based on the gross value of an Estate (no deductions for debts).

In the US there is some relief for Business Assets, such as Jackson's own and the Beatle songs, based on the ability to argue what is the "fair market" on death. There is also the possibility of paying tax on Business Assets in instalments over 14 years. The only other good piece of news is that the Assets in an Estate are re-valued on death for US capital gains tax, effectively eliminating that tax.

However, even taking all this into account, Michael Jackson's Estate will still be facing a substantial Federal Estate tax bill that may end up taking between 30% and 40% of the value of the Estate, something that most commentators have simply ignored!

Daniel Feingold, Senior Partner of Strategic Tax Planning Partnership commented, "Michael Jackson's situation demonstrates the need for good Estate Tax planning in advance that sadly too many International High Net Worth Individuals put-off until it is too late! Tax planning on an Estate of this size could have saved hundreds of millions of Dollars in Federal Estate Tax!".