The Renaissance Report

Spring 2015

Providing customized financial, estate and investment management solutions.

It has been a long, hard winter in the northeast. At long last we are seen the green shoots of spring bringing the hope of a warm summer to follow. In this newsletter we look at some of the 'green shoots' we can see in economies we have all but written off. The article on the economy and investment markets considers the importance of Greece through its impact on bond yields to the U.S. investor even though the size of the economy indicates a minimal economic impact. We also look at some of the more encouraging signs of economic activity in the U.S helping to indicate the first quarter slowdown was mostly a function of winter weather that in some locations was the worst for a hundred years.

Tom has written an interesting commentary on some of the aspects to consider from the significant changes in the New York State Estate Tax law.

If you would like to discuss any of the aspects we cover in this report, please contact us directly.

Trevor

Vergilius

"I fear the Greeks, even when they bring gifts."

Virgil

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Greece – a European tragedy

Written by Trevor M. Forbes

Greece being in depression with unimaginable unemployment does not have a direct bearing on the U.S. economy. Whether Greece is in or out of the Eurozone has little impact on the overall economic health of the continent. Greece after all is a small country with a very small economy. The Greek economy is less than 1 ½% the size of the U.S economy. However, whether we like it or not, Greece does matter.

Greece matters because of its economic and political instability. This in part has encouraged European investors to seek the apparent safety of the bonds issued by Germany, which is understandable, as well as France, Italy and Spain which is less understandable. As a result, this has driven the yields on German government bonds (bunds) into negative territory for maturities up to nine years. This means bond investors are effectively paying to lend to the German government. Switzerland recently issued a ten year bond at a yield of -0.05%. The reason some investors are prepared to buy bonds at these negative levels is partly a function of fear, partly an expectation that deflationary trends will continue and partly Quantitative Easing (QE) by the European Central Bank (ECB). The ECB is achieving this by buying sovereign debt across the Eurozone – Greece excepted. In this way they are, in effect, printing money just like the Japanese Central Bank, the Federal Reserve Bank (Fed) and the Bank of England.

The new socialist government in Greece has been aggressive in pursuing a more populist agenda involving reducing measures forcing austerity and seeking financial aid from the Eurozone while professing its long-term commitment to the Euro. Europe and the International Monetary Fund (IMF) are, understandably,

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New York State Estate Tax Cliff

Written by Thomas E. Malinowski

If you are a resident of New York, or a non-resident who owns real estate in New York, you may want to pay particular attention to the value of your property. On April 1, 2014, the Governor signed into law substantial changes to New York's estate tax law. There are both positives and negatives associated with this new law. As a positive, the minimum estate size that a return must be filed with a tax due has been increased significantly. However, prior gifts may come into play and once these thresholds have been reached, the resulting tax could be substantial.

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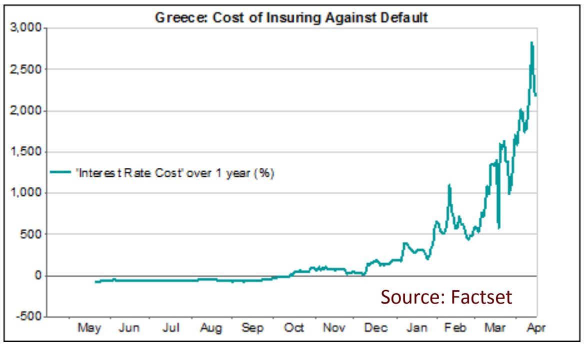
Greece... *(continued from page 1)*

reluctant to allow Greece to increase its borrowing any further to subsidize what is seen, especially by Germany, as a profligate fiscal policy. As Greece reaches the limits of its ability to borrow, Greek government bond yields have risen sharply with the two year government bond yield reaching 27% by mid- April. The cost of insuring against the Greek government defaulting on its debt repayments has similarly soared:



"The implications for Europe are profound and may also feed political dissension in other Eurozone economies battling with austerity. In a sense this may be Greece's 'gift' to Europe justifying Virgil's skepticism two thousand years' ago."

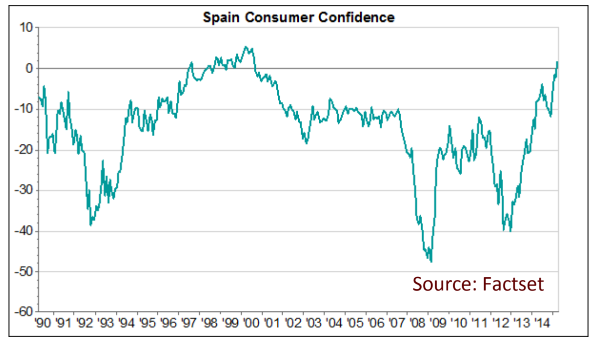
By way of a counter to Eurozone criticism, Greece has engaged in dialogue with Russia (as has Cyprus) in order to seek financial aid. Politically, Russia appears to view this as an attractive way to disrupt the Union which it sees as a major threat to its own ambitions in Eastern Europe. In any event, an association with Russia and a lack of support from the Eurozone appears destined to start a process of eventual disengagement from the monetary union. The implications for Europe are profound and may also feed political dissension in other Eurozone economies battling with austerity. In a sense this may be Greece's 'gift' to Europe justifying Virgil's skepticism two thousand years ago.

Why does it matter to the USA?

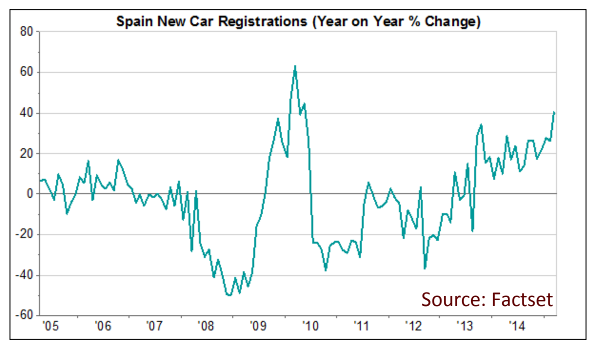
Importantly, this political tension has been partly responsible for driving European sovereign bond yields to exceptionally low levels. Institutional investors have sought higher returns by investing in the higher yielding U.S. Treasury bond market. Why, for example, buy a French government ten year bond yielding just 0.45% when you can buy the equivalent U.S. Treasury bond with a yield of 2.0%? Spanish and Italian ten year bond yields are a full 0.75% below their U.S. equivalent. So, money for investment has flowed across the Atlantic, sending the value of the U.S. dollar to levels last seen twelve years ago and driving down U.S. dollar bond yields.

In turn, this keeps the cost of money low for U.S. consumers buying cars and houses and companies seeking to invest money either in their own businesses or in acquiring others. It is no accident that since the start of 2014, Mergers & Acquisitions (M&A) activity has totaled some $5 trillion – the highest level since 2000.

In another sense, Europe matters to the U.S. investor. The Eurozone at long last appears to be sending up some 'green shoots' of a recovery. One of the worst economies over the last decade is Spain. There are 4 ½ million registered unemployed in Spain which amounts to just over 21% of the working population. This is one of the highest levels in Europe and has caused a significant shift in politics towards the anti-Europe left wing populist party. Consumer sentiment, however, is improving.



An indication of this is the 41% surge in new car registrations over the last twelve months.



The reason for this recovery is that the unemployment rate was 27% just two years ago and there are one-half million fewer people seeking jobs. A similar pattern is being seen in Italy and even France. Take this together with a similar increase in consumer demand in the UK and Germany and a significant proportion of the European economy is indicating recovery. The Japanese economy is also showing the same pattern of recovery.

The U.S. will benefit because around two-thirds of the world's economies are either growing or starting to recover. It is a rise in global demand that will eventually reduce the over-capacity in production that has kept inflation low. All the Quantitative Easing (QE) by the world's largest central banks is designed to print sufficient money to boost global demand and ensure price deflation is relegated to the history books.

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...Estate Tax Cliff… *(continued from page 1)*

The value of your estate will determine whether your estate is required to file a New York estate tax return. But, more importantly, this valuation will dictate the extent of your estate's tax liability.

Valuation

Generally, the New York gross estate for a state resident is the federal gross estate increased by certain gifts made during the three-year period ending on the date of death. However, the inclusion of gifts applies only to those made between April 1, 2014 and January 1, 2019.

Bear in mind that when calculating the gross estate, life insurance proceeds must be reflected. Although not subject to income tax, insurance proceeds will be an asset of an estate if the decedent was the owner of the policy.

Basic Exclusion Amount (BEA)

New York State provides for an exemption from estate tax for smaller estates. This exemption, or exclusion amount, is subject to increases each year until it coincides with the federal amount. For instance:

- April 1, 2015 through April 1, 2016
  $3,125,000
- April 1, 2016 through April 1, 2017
  $4,187,500
- April 1, 2017 through January 1, 2019
  $5,250,000
- January 1, 2019 and thereafter
  Federal estate tax exemption

If the value of the New York estate does not exceed the BEA amount, no return is necessary and no tax is due.

Unlike the federal law, New York law does not allow a surviving spouse to use any of a deceased spouse's unused BEA.

Applicable Credit Amount

This is where it gets sticky. The amount of credit will depend upon the relation between the value of the New York estate and the BEA with three possible results. If the estate is:

- Equal to or less than the BEA: **credit equal to tax**
- Between 100% and 105% of the BEA: **phase out of credit**
- Greater than 105% of the BEA: **no credit**

Consequently, if the New York estate is only slightly greater than the BEA, a significant New York tax will result; thus the cliff.

Examples

This can best be explained by example of three decedents with a date of death of May 1, 2015:

- New York estate of **$3,125,000** (100% of BEA):
  No tax
- New York estate of **$3,250,000** (104% of BEA) ($125,000 more):
  Tax of $183,650
- New York estate of **$3,281,250** (105% of BEA) ($156,250 more):
  Tax of $208,200

Therefore, for planning purposes, if the numbers are close, it becomes imperative to keep estates at or below the BEA. If you have any questions or need suggestions in this area, please contact us directly. *§§*

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