James Gandolfini's $30 Million Estate Tax Mistake

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In "The Sopranos," the IRS didn't stand a chance against Mafia boss Tony Soprano. But thanks to poor planning, the IRS will be the biggest beneficiary of actor James Gandolfini's estate.

Gandolfini died with an estate worth an estimated $70 million. But in what estate lawyer William Zabel referred to as a "catastrophe" in an interview with the New York Daily News, Gandolfini's will left about 80 percent of his estate unprotected against estate taxes, with rates that will add up to about 55 percent when you consider both the federal and state portions.

What's worse, some well-established estate planning techniques could easily have avoided much of that bill while still achieving most of what Gandolfini was trying to accomplish.

What the Will Said

You can read Gandolfini's will for yourself, but on the whole, it has fairly simple provisions.

After giving $1.6 million to various friends and relatives and making provisions for his personal property and his house and land in Italy, Gandolfini split the remainder of his estate among four people -- 30 percent each to his two sisters, 20 percent to his wife, and 20 percent to his daughter. His son received the proceeds of a life insurance policy that isn't subject to estate tax.

As ordinary as those provisions might sound, Gandolfini's will represents a missed opportunity in estate planning terms. By leaving only 20 percent of his estate to his wife, Gandolfini missed out on what could have been an unlimited deduction for estate tax purposes for gifts made to a surviving spouse.

How to Handle Complex Family Situations

Of course, one complication is that Gandolfini's surviving spouse, Deborah Lin, isn't the mother of his son, Michael. Often in situations involving stepparents and children of previous marriages, parents are reluctant to leave all their money to a surviving spouse, as they want to ensure that their children won't have to rely on their stepparent to provide for them.

However, even in cases involving children of previous marriages, the use of marital trusts can usually take advantage of the marital deduction while still ensuring that children will eventually receive the bulk of the estate.

A typical marital trust will provide for income from trust property to be paid to the spouse, and for the assets that remain after the surviving spouse dies to go to the children or other desired heirs.

You have to be careful in drafting the marital trust so that it qualifies for the marital deduction while still providing protection for your kids, but proper planning can reach a beneficial result that could have cut tens of millions of dollars off Gandolfini's estate-tax bill.

Don't Make a Celebrity Mistake

Gandolfini's estate-planning errors are far from the only tax mistake among celebrities. Some are basic missteps, like Wesley Snipes having failed to file income tax returns and Nicolas Cage having an unpaid seven-figure tax bill outstanding. Lauryn Hill failed to pay taxes for years, and on Monday began serving a three-month sentence for tax evasion.

Moreover, Gandolfini at least had a will. Many celebs who died unexpectedly, including Jimi Hendrix, Amy Winehouse, and Barry White, didn't have valid wills at all, an issue which can raise a host of other complications and unintended results.

So in reviewing your own estate-planning situation, be sure you've taken care of the following issues:

Make sure you have a will. Doing so is the best way not only to make sure the right people get your property after your death but also to name someone to take care of minor children in your absence. Without a will, long court battles can ensue, and that will not only create emotional stress but also sap financial strength at a most difficult time.

There are a number of other vital documents to have. A living will lets you make your wishes known about life-preserving treatment, while a health-care power-of-attorney will let a loved one act more broadly on your behalf when you're unable to make your own decisions about medical treatment. Similarly, a durable power of attorney will let someone take financial action on your behalf if you're incapacitated, saving a huge amount of complications.

Finally, financial planning can be as simple or as complex as you choose to make it. With the federal estate tax exemption currently at $5.25 million, few people have to worry about tax considerations, although some states have estate taxes that kick in at levels as low as $675,000. Make sure to coordinate your will's provisions with your investments, life insurance, and other financial planning to ensure a smooth transition if something happens to you.

No one likes to contemplate their own death. But the expensive lesson that the IRS is about to teach the Gandolfini family is one that you don't have to learn the hard way, as long as you take some easy steps now to avoid a big IRS bill later.