Estate planning: Protecting your family

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Tax considerations

The tax claims on your estate may significantly decrease the portion that passes to your heirs. Generally, property will be included in the taxable estate if you had control over it at the time of your death. Be aware that federal estate taxes are due nine months after death and may be extended for an additional six months for good reason. It is wise to consult with a CPA for specific advice on how to reduce tax liability. However, here are some basic items of importance when considering tax claims.

Unlimited Marital Deduction—You may leave an unlimited amount of assets to your spouse without any tax liability. However, when your surviving spouse dies, tax may be charged against his or her estate, which includes the assets he or she received from your estate. This may result in more tax being paid than would have been the case if you both had made good use of the unified credit (below).

Unified Credit—You are entitled to a lifetime credit allowing $600,000 of assets to pass tax-free to your heirs. If your gross estate exceeds $600,000, an estate tax return (Form 706) must be filed. To get the full benefit of this credit, consider bequeathing property to your heirs directly in a trust such as a bypass trust, with the surviving spouse as an income beneficiary. If properly structured, this credit could result in a tax-free estate of up to $1.2 million for a married couple.

Transfer Tax Rates—Once your estate exceeds the amount offset by the unified credit ($600,000), federal estate tax rates begin at 37 percent and rise fairly quickly. The maximum estate tax rate is 55 percent, reached at a $3 million taxable estate.

Gift Tax Exclusion—You are allowed to make tax-exempt gifts of up to $10,000 annually (or $20,000 with your spouse's consent) per recipient. An annual gift-giving program can transfer a considerable amount of assets from an estate tax-free.

State Taxes—State taxes vary from state to state. You may want to ask a tax specialist to review your state's laws on estate, inheritance and gift taxes.
What is probate?
Probate is the legal process of proving the will is valid. If you leave a will, your designated executor takes care of the legal formalities. If not, the probate court will appoint an administrator. Probate procedures differ from state to state. You can bypass probate by distributing your assets through joint ownership, a trust, or a gift while you are alive, instead of through a will. However, this may deprive your estate of the funds needed to pay final bills. Also, be aware that bypassing probate does not eliminate or reduce federal taxes. It may, however, cut court costs and administration expenses which are often set as a percentage of the probate estate.

How long does settlement take?
Even the simplest estate takes time to settle because there are so many variables involved. Creditors must be allowed an opportunity to come forward and file any claims. Or, assets may need to be sold to pay necessary taxes. A simple estate may take three months to a year to settle—a complicated one may take two to three years, or even more. However, in special circumstances, interim distributions may be made from your estate during the settlement process.

Life insurance
For many, life insurance may be an essential estate planning tool because it provides immediate cash for survivors. Since proceeds are readily available, life insurance prevents your heirs from being forced to liquidate your other assets. Additionally, proceeds can help your heirs offset tax liabilities. Generally, insurance passes directly to the beneficiary and does not have to go through the probate process.

Get professional assistance
Planning for your survivors should begin as soon as you have acquired assets or when you become legally responsible for minor children. Be sure you consult with a competent attorney to draw up your will. With effective planning, you can lessen the tax burden on your estate and be confident that your heirs will receive everything that the law allows.

Since CPAs have a broad understanding of the tax implications of your estate planning decisions, they can assist you in meeting your goals. They can also help your beneficiaries avoid costly errors during the administration of your estate.

The information in this publication is for general purposes only. You should consult your CPA for specific recommendations appropriate to your individual situation.

A will enables you to—

- distribute your property as you wish, including personal property of sentimental value;
- provide for future management of investments or a family business;
- designate guardians for your minor children;
- select the person you want to distribute your estate, eliminating the necessity of an expensive, court-appointed administrator;
- minimize taxes and administration expenses in the settlement of your estate; and
- provide for special needs or desires, such as charitable contributions.

Naming a guardian. Similarity in approaches to child-raising is an important factor to consider when selecting guardians for your minor children. In addition, you may want to discuss family relationships with your children and use those views in forming your decision. If you are seriously concerned with the financial discipline of the prospective guardians, consider naming a separate trustee to manage the money and property left to the children. In most cases, however, it is wise to select people who will not only love and care for your children, but who are financially responsible as well.

Naming an executor. An executor should be named in your will to see that its provisions are carried out. Select someone you can trust to carry out your wishes and who has both the time and the financial know-how, since he or she will have many responsibilities.

The executor must—

- prepare a complete inventory of all your assets;
- collect any money owed to you;
- pay any valid debts you owe, including funeral costs, tax liabilities and administration expenses;
- notify life insurance companies of your death;
- sell off assets as necessary and invest others wisely to provide income during the time that the estate is being administered;
- prepare and file all income tax, estate tax and gift tax returns;
- distribute your estate to the people named in your will; and
- account for all receipts and payments going in and out of the estate.

What will carry on your wishes?

What is estate planning?
Estate planning is the systematic process of making decisions about what you want to happen to your property when you're gone. It involves deciding on a way to distribute your assets, selecting the right person to carry out your wishes, and ensuring that your wishes will be carried out. Anyone of legal age with any property at all should have a will. If you die without a will, or what is known as intestate, the court will decide what your wishes will be carried out. Anyone of legal age with any property at all should have a will. If you die without a will, or what is known as intestate, the court will decide what your wishes will be carried out. Anyone of legal age with any property at all should have a will.

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CPAs recommend that you develop an estate plan as soon as possible so that you can transfer your property exactly as you choose. Effective estate planning may also help to minimize the taxes on your estate and maximize the inheritance for your heirs. Carried out competently, it will make the transition to a life without you easier for your family.

What does estate planning entail?
The most critical component of an effective estate plan is a properly prepared will—one which transfers your assets in accordance with your wishes. Additionally, you must consider the probate process and the possible tax liabilities of your estate. CPAs can assist you in creating an estate plan by performing in-depth financial projections and on-target estate calculations.

It is crucial that you plan for the conveyance of your estate throughout your life. Once you've developed a plan designed to accomplish your goals, you should review the plan annually to ensure that it is still effective. Personal changes, such as increased net worth, marriage, divorce, or new children, could make your present plan worthless. Or estate and income tax law changes might render your present plan useless.

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If not, the probate court will appoint an administrator. Probate procedures differ from state to state. You can bypass probate by distributing your assets through joint ownership, a trust, or a gift while you are alive, instead of through a will. However, this may deprive your estate of the funds needed to pay final bills. Also, be aware that bypassing probate does not eliminate or reduce federal taxes. It may, however, cut court costs and administration expenses which are often set as a percentage of the probate estate.

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