Estate Planning – Education
We review existing client estate plans to help educate them about what they have and the potential pitfalls

Estate Settlement Costs

Your Estate

- Includes everything you own in your name or own jointly and can
- include all of these listed and more
- Your home
- Cars
- Life insurance
- Investments
- IRA's – 401ks
- Property
- Savings/checking
- Savings bonds

Six Potential Costs

- 1st – Federal Estate Tax – this is a tax on your estate prior to being transferred
    - Generally, this does not apply until your estate exceeds $5,000,000. This amount can be raised to $10,000,000 with no Fed Estate Tax by constructing a Credit Shelter Trust
- 2nd – State Inheritance Tax – this is a potential state tax accessed to the person receiving the estate, in your state of residence.
    - As a general rule, this is not a big concern when the estate is left to linear descendants. This can be a concern when left outside of the family. Each state has their own rules and I am not up to date on all the states.
- 3rd – Federal Income Tax – this is the tax that is due on all undistributed income such as the gain in a savings bond or a non-qualified annuity and the full value of an IRA or a 401k
    - This is generally a sincere concern and can run over 39%.
- 4th – State Income Tax – this is a state income tax that is accessed on exactly the same accounts as the Fed Income Tax – undistributed income. Tax is calculated on the person receiving it, in the state receiving it
    - This is generally a sincere concern and can run as high as 10%. On the other hand there are states that have no income tax, in that case it is zero

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- 5th – Probate – the legal process that takes place after someone dies. It can include, proving a person's will is valid, identifying and inventorying the property, having the property appraised, paying debts and taxes, and distributing the property.
    - There generally are costs associated with probating the estate. The more planning done prior to the creation of the estate, the smoother and the less the costs may be.
    - Living Trusts are a tool that can be used to help reduce or eliminate probate
- 6th – Federal Estate Income Tax – the income tax on the growth in the estate from the date of death to the date the estate is settled
    - The better the planning before the estate is created and the better the execution of settling the estate can help to reduce this cost

5 Ways to Pass Assets

- 1st – Named Beneficiary –
    - Many accounts can have a beneficiary designation such as an IRA, 401k, life insurance and annuities
    - At the passing of the owner, this account will be paid directly to the person(s) named on the beneficiary.
    - This does escape probate and may be includible for the first four estate settlement costs outlined
- 2nd – TOD/POD -
    - There are other investment and bank accounts that do not have a beneficiary designation, yet do allow for a TOD(transfer on death) or a POD(paid on death) designation. This works essentially the same way as a beneficiary.
    - This does escape probate and may be includible for the first two estate settlement costs outlined. In most of these cases these accounts enjoy the Stepped-up-Basis status which allows the person receiving the account to avoid income taxes on the gain to the date of death
- 3rd – By Title –
    - Property that is titled, such as your home, a farm, a car, a rental property, etc., may be titled differently to accomplish specific estate goals.
    - A home owned jointly between mom and dad, dads passing, we know that the home is moms. The title handled that for us. No probate.
    - At the passing of the second owner, for example mom passes away a year later, if there is no joint owner, then who does the home belong to? They must look to the Will for the answer. Some people consider adding children to the title of their home so that it passes to the kids by title.

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There is risk with that with regard to a child filing bankruptcy, a divorce, etc.

  - Many times we see where the widow or widower will hold an account jointly with one of the children so that the child has check writing privileges. This accomplishes the goal for check writing, yet leaves that account exclusively to that child, in most cases accidentally disinheriting the other children.

- 4th – Living Trust –
  - A Living Trust can be established and most all property owned in it. The home, the cars, misc. bank and investment accounts, etc. The Living Trust is document that allows the couple to continue to control their property without issue, buy and sell as always, yet it allows assets to be passed to the beneficiaries without Probate concerns and allows for the transition of property (home, farm, cars) to the kids without the risk of adding their name on the asset title itself.
  - A Living Trust can also provide control of the assets after the second passing providing ongoing guidance of the trust. This allows for periodic distribution to kids and grandkids, versus a single lump sum which some may not handle as well as others.
- 5th – Will –
  - Everyone needs a Will. Even when extensive estate planning is done, the Will is a safety net for anything that might fall through the cracks