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Beginning to Think About Estate Planning

When you hear the term "estate planning," you probably think of estate taxes or think that estate planning is only for older people or those with lots of assets. Estate planning is about estate taxes and quite a bit more. It also includes what would happen to you if you could not make financial and medical decisions and what would happen to your loved ones if you died.

If you do not have a lot of assets, you may not care about estate taxes now. But if you are financially successful during your life, you may care a great deal about them down the road. In addition, you can expect to read about estate taxes as Congress deals with any changes to our tax laws.

Basics of Estate Taxes

The federal government levies a tax, payable by your estate, with rates up to 40% (for 2020) on the largest estates. The tax is charged against the value of the estate after allowable deductions are taken. Allowable deductions include burial expenses, existing debts, charitable contributions and accrued taxes. In addition, any assets left to a surviving spouse are not included in the taxable estate. After the estate tax is calculated, there is a credit against that tax. The result is that many estates pay no tax. The amount of the credit is increasing and below is a chart indicating the size of taxable estates that will be subject to tax after the credit.

Year	Estate size where taxation starts	Top estate tax rate
2020	$11,580,000	40%
Future	Indexed to inflation	40%

Estate Planning Issues Other Than Taxes

<u>Family communication</u>. In many families, death and money are almost forbidden subjects. Yet some frank discussions with your parents (or children) can prepare everyone for the unexpected. Be sure key family members can find important documents and are aware of any desired medical treatment options.

<u>Guardians for surviving children</u>. Your will dictates how assets are distributed from your estate and can be used to designate legal guardians for dependents. You, not the courts, should make these decisions. Your will also names the person (executor) to oversee the estate until all assets are distributed and officially closed. Choose someone that is capable of understanding and carrying out your wishes.

<u>Medical directives</u>. These documents are invoked if you are not capable of making health care decisions for yourself. A *durable power of attorney for health care* gives another person the ability to make medical decisions and a *living will* tells your family and medical personnel how you are to be treated if you become terminally ill. It also states your wishes about being placed on life support. Some states may separate forms for each.

Durable power of attorney for finances. This document enables another person to handle your finances and your investments if you become incapacitated and are unable to make your own decisions. Without this power of attorney, it may be necessary to go to court frequently just to handle routine transactions. Choose someone that is capable and knowledgeable such as an adult child, sibling or trusted friend. If you do not have someone like that, consider your attorney or accountant.

Your retirement accounts. Carefully choose the beneficiary of your retirement plans, including IRAs. In most cases, the person receiving your retirement plan assets is the determined by the beneficiary form you sign and not your will.

Irrevocable life insurance trusts. Life insurance proceeds are not subject to income taxes but may result in estate taxes if your estate is the beneficiary. If you have life insurance and your assets are approaching the level where estate taxes may be assessed, speak with a qualified attorney to learn how a life insurance trust may help keep proceeds out of your estate and taxes to a minimum.

Regular estate planning checkups. Estate plans should be reviewed regularly. Many estate attorneys suggest a review every three or four years. If your situation changes (divorce, death of a spouse, birth of children or grandchildren, changes in wealth status), you may want to review your plan more often. Moving to another state should also prompt estate plan review.

Use an expert. The estate laws are complex and the consequences of being inadequately prepared are significant. While you may want to do some investigation on your own, use a qualified attorney for your estate planning needs.