PARTRIDGE FINANCIAL

Understanding the Estate Plan

A well-structured estate plan can be invaluable to you and your family

It is common for people to put off planning their estates. After all, no one wants to anticipate their death. In addition, many may believe that only the wealthy require estate planning or that all that is involved is tax planning, which can be done "later." They may well be wrong on both counts.

Your level of wealth and the ultimate tax consequences of your estate becomes secondary to the planning and care of your family and other heirs.

A well-structured estate plan can be invaluable. Through it, you can control the distribution of your assets and possessions, name guardians for your children, or plan care for other dependents. While the estate planning process can raise some difficult emotional and personal issues, your heirs will be glad you did it, and you will know that your wishes are assured.

How to Begin?

Your first step should be to assemble a competent, professional estate planning team. Your attorney, financial professional, insurance agent, bank trust officer, and/or accountant are all possible members of your team, depending on the size and complexity of your estate. They can help you understand your current estate by looking at your financial position as of today and helping you explore your family's needs for the future.

Does a family member have special needs or require medical attention? How will your family's overall cost-of-living requirements change? How much will an education cost when your children reach college age?

How will estate taxes affect your assets as they are currently held?

The answers to these questions can help you develop an estate plan that works for you and your loved ones.

What Information Should Be Gathered?

A thorough estate analysis requires gathering materials involving current or future income, property ownership, insurance, and legal arrangements already in place. This includes records of the following:

- ☑ Current income from employment and all investments
- ☑ Any expected deferred compensation
- ☑ All retirement benefits from Social Security (including survivors' benefits), IRAs, pensions, and profit-sharing plans
- ☑ Deeds to primary and vacation residences
- ☑ Personal property
- ☑ Life insurance policies of which you are the owner, the insured, or the beneficiary
- ☑ Trust agreements, if any
- ☑ Your will, if you have one

Current and expected debts and obligations, including mortgage and loan balances, real estate liens, taxes payable, consumer debts, and estimates of funeral costs and estate settlement expenses.

Once assembled, a complete analysis can begin, giving you the basis for a comprehensive estate plan.

Steps to Estate Preservation

Suppose you begin planning in a timely fashion. In that case, some methods may allow you to take steps to preserve your estate and minimize estate taxation while satisfying both the Internal Revenue Service and the courts. You can also potentially reduce your heirs' needless effort and expense. Consider the following steps:

- **Use Your Applicable Exclusion Amount to the Fullest.** For 2022, the federal personal estate tax exemption amount is $12.06 million ($11.7 million for 2021). This means that when you pass away, the value of your estate gets calculated, and any amount more than $12.06 million is subject to the federal estate tax unless otherwise excluded. A married couple has a combined exemption for 2022 of $24.12 million[i]
- **Plan a Gifting Program.** Further tax shielding can potentially be gained through the annual $16,000 gift exclusion, which is indexed annually for inflation. This allows gifting of up to $16,000 each (2022), to any number of donees annually without payment of gift tax. (When a spouse is involved in the gifting program, the annual exclusion will increase to $32,000, meaning each spouse can give $16,000 to an individual). The donee beneficiary must make a provision for immediate use of the gift; gifts of future interest will not qualify[ii]. Therefore, professional assistance and careful structuring of your gifting program are essential.
- **Draft a Will.** A will is a formal, legal document instructing your survivors in settlement of your estate. It is crucial to an estate plan's creation that your will be correctly written by a qualified, experienced legal professional with the signing of the document witnessed simultaneously by two parties.
- **Establish Trusts.** While seemingly complex, trusts are powerful tools designed to help individuals handle various family and tax-related problems. Utilizing trusts can be an excellent method of accomplishing long-term estate planning goals.
- **Plan Your Charitable Bequests.** The value of all property transferred for "charitable" or "public" purposes is deductible, with certain limitations, when determining the valuation of an estate for tax purposes.
- **Utilize Life Insurance to Its Fullest Advantage.** Life insurance can fulfill two essential functions in your estate planning. First and foremost, it can provide for your spouse's or other beneficiaries' immediate cash needs. Second, and of equal importance, using an irrevocable life insurance trust(ILIT) can prevent the inclusion of your life insurance proceeds in your estate and help your executor pay your estate tax bill without having to sell estate assets[iii].
- **Title Assets Properly.** The simplest and least expensive estate planning technique for married couples is to be "joint tenants," which allows two or more people to hold title to real estate jointly, with equal rights. If one partner dies, their rights of ownership pass to the surviving tenant(s) through a legal relationship known as a right of survivorship. [iv] This can possibly exclude assets from probate and may eventually save legal costs.

[Note: Residents of community property states should remember that all income and assets acquired by a married couple living in those states, except for individual gifts and inheritances, are considered community property, half of which is included in each spouse's estate valuation.]

Remember: You Can't Take it With You

The careful planning of an estate can require a great deal of expertise.

If you surround yourself with a professional, supportive team as you begin the process, work through its many stages and adjust your plans over time, you can prepare yourself – and those you love – for the future.

Footnotes:
[i] New Higher Estate And Gift Tax Limits For 2022: Couples Can Pass On $720,000 More Tax-Free (forbes.com)
[ii] What's New - Estate and Gift Tax | Internal Revenue Service (irs.gov)
[iii] 7 Reasons for an Irrevocable Life Insurance Trust (ILIT) (investopedia.com)
[iv] 5 Common Methods of Holding Real Property Title (investopedia.com)