Getting started on your estate plan: Inventory and value assets; estimate tax liability

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If you've decided it's time to create your estate plan, congratulations! A good place to begin is to work with us to determine what your estate is worth and whether you need to worry about estate taxes.

What is your estate worth?

First, list all of your assets and their estimated value. If you're married, prepare a similar list for your spouse's assets.   Be careful to review how the assets are titled, so as to include them correctly in each spouse's list and as jointly owned.

If you own a life insurance policy at the time of your death, the proceeds on that policy usually will be includable in your estate for tax purposes (although the proceeds will not be includable in your probate estate governed by your Will unless your estate is named as beneficiary, which is usually not the case).   Remember: That's *proceeds*. If your estate is large enough, a significant share of those proceeds may go to the government as taxes, not to your chosen beneficiaries.

The same is true for qualified retirement plan accounts (e.g., a 401(k) plan) and individual retirement accounts. The account balance will be includable in your estate for tax purposes (although the funds will not be includable in your probate estate governed by your Will unless your estate is named as beneficiary, which is usually not the case). Again, if your estate is large enough, a significant share of the funds in those retirement accounts may go to the government, not to your designated beneficiaries.

Is your estate liable for tax?

Here's a simplified way to project your federal estate tax exposure: Take the value of your estate, net of any debts.   Subtract any assets that will pass to charity on your death. Then, if you're married and your spouse is a U.S. citizen, subtract any assets you'll pass to him or her. Those assets qualify for the marital deduction and avoid potential estate tax exposure until the surviving spouse dies. The net number represents your taxable estate.

You can transfer up to your available exemption amount at death free of federal estate taxes. So if your taxable estate is equal to or less than the estate tax exemption (for 2016, $5.45 million) reduced by any gift tax exemption you used during your life, no federal estate tax will be due when you die. But if your taxable estate exceeds this amount, it will be subject to federal estate tax.

Don't forget about state estate taxes or state inheritance taxes. New Jersey has both types, but only the greater amount of the two taxes will be imposed. And New Jersey's estate tax exemption - $675,000 - is currently much lower than the federal exemption.

If you're not sure whether you're at risk for the estate tax or if you'd like to learn about gift and estate planning strategies to reduce your potential liability, please contact us.

The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com