

Getting Your Estate in Order

Don't let the changing estate tax environment prevent you from getting your estate in order. Whatever happens with the future of estate tax, you'll still want to ensure your assets are distributed according to your wishes. While most people will need the help of professionals to develop a formal estate plan, you can aid the process by organizing information and making basic decisions. Consider these steps:

1. Calculate your estate's value. In addition to assets you currently own, include assets your estate will acquire after your death, such as life insurance proceeds and pension benefits. For each asset, list the estimated current market value, how the asset is titled, and any beneficiaries. Also list any liabilities that will have to be paid from those assets. Subtracting the liabilities from the assets will give you an estimate of your estate's current value.

2. Determine your estate planning objectives. Decide who should inherit your assets and how your assets should be distributed. You can bequeath assets outright, giving heirs immediate control, or you can place assets in trust, so you control how and when the assets are distributed. Business owners should also consider succession planning for the business.

3. Decide who will assist in carrying out your estate plan. Several individuals will be instrumental:

- An executor (or personal representative) administers your estate through probate court, locates and values all assets, pays your estate's obligations, and distributes assets to your heirs.
- A trustee manages your trust and distributes the income and principal to heirs.
- You should also nominate a guardian for minor children. You may decide to elect one guardian for physical custody of your children, while another guardian manages their assets.
- Prepare a durable power of attorney, which gives an individual you select the power to take over your finances if you become incapacitated.
- Also prepare a health care proxy to delegate health care decisions to a third person when you are unable to make those decisions yourself.

In all cases, name your first choice and at least one successor.

4. Review options to minimize estate taxes. With the estate tax exemption and maximum estate tax rate subject to change in the future, the amount and whether estate taxes will be owed by your estate will depend on the year you die. Since you can't predict that, your estate plan will need to provide flexibility. Consider the following strategies:

- Trusts are versatile estate planning tools that can be used for a variety of purposes, including to reduce estate taxes, to control asset distribution, to make gifts to charities, to provide for the possible incapacity of the creator, to protect heirs, to avoid probate, to provide for professional management of assets, or to make provisions for minors. There are a wide variety of trusts and you should review which may be appropriate for your circumstances.
- The unlimited marital deduction allows you to leave any amount of your estate to your spouse without paying estate taxes. Don't assume, however, that simply leaving all your assets to your spouse is the appropriate estate plan. Your estate may reduce estate taxes if you distribute some assets to other heirs to utilize some or all of your estate tax exclusion.
- Every year, you can make tax-free gifts, currently up to \$15,000 or \$30,000 if the gift is split with your spouse, to each of any number of individuals in 2019 (unchanged from \$15,000 and \$30,000 respectively from 2018). These annual gifts are not counted as part of your lifetime gift tax exclusion or as part of your estate tax exclusion. Over a number of years, an annual gifting program can remove significant assets from your estate.
- If you can't totally avoid estate taxes, make provisions for the payment of those taxes. Many large estates are cash poor, making it difficult for heirs to pay estate taxes. You may want to obtain a life insurance policy to help fund those taxes. If properly structured, your beneficiaries may receive the proceeds without paying income or estate taxes.

Plan your estate now to help ensure your assets are properly distributed with minimal estate tax cost.

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