

Wills and trusts generally occupy most discussions on estate planning and transfer of assets to your heirs. However, there are 2 other issues that are important to consider in planning your estate. Most people know of the JTWR0S designation (joint with right of survivorship – typical joint account) but TOD (transfer on death) is usually less known. Get to know the terms and discuss with your attorney how they may or may not fit in your estate planning.

----Chuck

The Importance of TOD & JTWR0S Designations

A convenient move that could ward off probate on your accounts.

Provided by Charles D. Vercellone, ChFC

TOD, JTWR0S – what do these obscure acronyms signify? They are shorthand for *transfer on death* and *joint tenancy with right of survivorship* – two designations that permit automatic transfer of bank or investment accounts from a deceased spouse to a surviving spouse.¹

This automatic transfer of assets reflects a legal tenet called the *right of survivorship* – the idea that the surviving partner should be the default beneficiary of the account. In some states, a TOD or JTWR0S beneficiary designation is even allowed for real property.²

When an account or asset has a TOD or JTWR0S designation, the right of survivorship precedes any beneficiary designations made in a will or trust.³

There are advantages to having TOD and JTWR0S accounts – and disadvantages as well.

TOD & JTWR0S accounts usually avoid probate. As TOD and JTWR0S beneficiary designations define a direct route for account transfer, there is rarely any need for such assets to be probated. The involved financial institution has a contractual requirement (per the TOD or JTWR0S designation) to pay the balance of the account funds to the surviving partner.⁴

In unusual instances, an exception may apply: if the deceased account owner has outlived the designated TOD beneficiary or beneficiaries, then the account faces probate.⁵

What happens if both owners of a JTWR0S account pass away at the same time? In such cases, a TOD designation applies (for any named contingent beneficiary).⁴

To be technically clear, *transfer on death* signifies a route of asset transfer, while *joint tenancy with right of survivorship* signifies a form of asset ownership. In a variation on JTWR0S called *tenants by entirety*, both spouses are legally deemed as equal owners of the asset or account while living, with the asset or account eventually transferring to the longer-living spouse.⁴

Does a TOD or JTWR0S designation remove an account from your taxable estate? No. A TOD or JTWR0S designation makes those assets non-probate assets, and that may save your executor a little money and time – but it doesn't take them out of your gross taxable estate.

In fact, 100% of the value of an account with a TOD beneficiary designation will be included in your taxable estate. It varies for accounts titled as JTWRROS. If you hold the title to a JTWRROS account with your spouse, 50% of its value will be included in your taxable estate. If it is titled as JTWRROS with someone besides your spouse, the entire value of the account may go into your taxable estate, unless the other owner has made contributions to the account.⁶

How about capital gains? JTWRROS accounts in common law states typically get a 50% step-up in basis upon the death of one owner. In community property states, the step-up is 100%.⁶

Could gift tax become a concern? Yes, if the other owner of a JTWRROS account is not your spouse. If you change the title on an account to permit JTWRROS, you are giving away a percentage of your assets; the non-spouse receives a gift from you. If the amount of the gift exceeds the annual gift tax exclusion, you will need to file a gift tax return for that year. If you retitle the account in the future, so that you are again the sole owner, that constitutes a gift to you on behalf of the former co-owner; they will need to file a gift tax return if the amount of the gift tops the annual exclusion.⁶

TOD & JTWRROS designations are designed to make account transfer easy. They simplify an element of estate strategy.

TOD or JTWRROS accounts are not cheap substitutes for wills or trusts. If you have multiple children and name one of them as the TOD beneficiary of an account, that child will get the entire account balance, and the other kids will get nothing. The TOD beneficiary can of course divvy up those assets equally among siblings, but in doing so, that TOD beneficiary may run afoul of the yearly gift tax exclusion.⁶

As you create your estate, respect the power of TOD & JTWRROS designations. Since they override any beneficiary designations made in wills and trusts, you want to double-check any will and trust(s) you have, to make sure that you aren't sending conflicting messages to your heirs.⁶

That aside, TOD & JTWRROS designations can represent a convenient way to arrange the smooth, orderly transfer of account balances when original account owners pass away.

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Citations.

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