TERRY'S TIPS

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For many people estate planning falls under the same category as going to the dentist. In addition, those with low incomes and low net worth often feel estate planning is unnecessary and only for the rich. What most people don't know is that proper estate planning goes beyond allocating money or other assets. There are a number of common estate planning errors that can be avoided by acquiring the adequate knowledge about estate planning

Top 7 Estate Planning Mistakes

1) No Estate Plan

Many individuals do not realize that estate planning included the preparation of documents such as living wills, which includes provisions for situations like being taken off life support, as well as traditional wills, which makes provisions for disposition of property and the guardianship of minor children. Preparing these documents helps to ensure that a person's wishes are clearly documented. No matter the size of the estate, preparing a will can help to prevent quarreling and bitterness among the beneficiaries.

2) Ignoring Future Legislation

December 2010, Congress voted to extend the majority of the Bush-era tax cuts. Estate tax is now back in effect for taxpayers with estates above $5,000,000 will face estate.

3) Being Unaware of the Gift Tax Impact on Joint Ownership

One method that many individuals use to avoid probate is to title assets in joint names with a friend, family member, or other individual. However, unless an exception applies-as is the case when the joint owner is the owner's spouse-this can generate a taxable gift in the current year and may trigger the gift tax.

4) Failure to Use Unified Credit

Failure to use unified credit is a costly error committed by a huge percentage of affluent households. Generally when the first spouse passes away, all of their assets are passed to the surviving spouse. If the deceased spouse had assets that were valued over the unified credit limit (2011: $5 million, 2012: $5.12 million), then the exclusion of those assets will lost if they are directly transferred to the spouse, who will only have their exclusion count against assets distributed to heirs when they die.

5) Failure to Gift Assets Before Death

An easy way to reduce your taxable estate is to gift assets to friends or relatives each year within the gift tax exclusion limit. Not only is this a convenient way to reduce the taxes on your estate that you may have to pay after your gone, but also able to see if your beneficiaries are capable of using your assets wisely.

6) Failing to Ensure the Correct Beneficiary Designations

Beneficiaries of retirement accounts will sometimes change. The account owner will usually complete a new beneficiary designation form indicating a new beneficiary when the primary beneficiary predeceases the account.

7) Make Sure You're Covered

Regardless of your income bracket, having adequate life insurance coverage is vital in most cases. Low income households may benefit from term insurance coverage and may help to replace lost income as a result of the death of the primary breadwinner. While affluent families may use the proceeds from insurance to provide liquidity upon the death of the insured.

Conclusion

These are just some of the errors that individuals often make with their estates. The good news is that many of these can be easily and quickly rectified, providing the corrective steps are taken before death. Consult with professionals who can help to ensure that your estate planning is on track. These individuals may include your financial or estate planner and your tax attorney.

Estate Planning Tips for Women

Passing on Assets Before You Die

If you are planning on leaving some of your estate to someone else other than your spouse, it may make sense to start gifting it to them before you die. You are able to gift up to $14,000 a year in cash or other assets to each beneficiary without triggering the gift tax. This is one way to keep more money out of Uncle Sam's pocket.

Evaluate Your Estate Planning After Your Spouse Dies

Many people never revisit their estate plans after its been created. But changes in circumstances means its time to pull it out and make needed changes. If your spouse dies before you, you will have to change beneficiaries for all your assets.

Maintain a Joint Account

If you or your spouse are ever incapacitated or dies suddenly, it may take some time for other spouses to obtain legal access to the deceased's individual accounts. In the mean, there are regular ongoing expenses. There may also be new medical expenses or other expenses needed to be covered. A joint account will allow both spouses to access funds easily and will make the transition smoother.

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Sources: Mark P. Cussen, CFP®, CMFC, AFC