Common estate planning mistakes to avoid

An estate can be a terrible thing to waste. Lack of or improper estate planning can cost you money in the form of estate taxes and probate and create headaches for your heirs. Here are 11 estate-planning mistakes to avoid.

Assuming you don't need an estate plan. Sure, only a small percentage of estates each year actually pay federal and state estate taxes. Your estate must be valued at over $5.34 million before you begin paying Uncle Sam anything. (The state of Oregon taxes estates above $1 million). Some folks can reach that $5.34 million threshold faster than you realize through the sale of a business, growing employee-funded retirement plans, rising home values, and life insurance. Even if estate taxes are not a concern, planning your estate can save your heirs valuable time. If you don't plan your estate, the state will do it for you.

Failure to keep good records. It's difficult for your heirs to sort out your estate if they don't know where to find your will, insurance policies, bank accounts, and other documents. In fact, every year millions of dollars go unclaimed because heirs don't know about investment and bank accounts.

Leaving your entire estate to your spouse. You can pass on your estate to your spouse free of estate tax (unless your spouse is not a U.S. citizen). However, if the estate continues to grow in value your spouse's estate may owe taxes when he or she dies—and you lose $5.43 million in exemptions. This problem can be eliminated or minimized through use of trusts, gifts, etc.

Spouses putting all assets in a "joint name." Assets jointly owned by spouses automatically go to the surviving spouse. But this may balloon the surviving spouse's estate above that $5.43 million threshold.

Not having a will. A will is a legal document designating who is to receive your estate property at your death, as well as naming guardians for your children and appointing the will's executor. It is the most fundamental document in your estate plan, yet 70 percent of American adults don't have a will.

Assuming a will is a complete estate plan. For many estates, a properly drafted will is sufficient. But for larger value or more complicated estates, additional planning may be in order.

Not using the annual $14,000 gift tax exclusion. You can give away $14,000 a year ($28,000 if your spouse goes along) to each donee free of gift tax. This can be an easy way to move potentially taxable assets out of your estate.

Not understanding the unified credit system. The gift and estate tax system is interconnected. That is, you can give away during your lifetime or pass on at death, free of gift or estate taxes, assets whose total combined value does not exceed $5.43 Million. For example, you might gift $3,000,000 during your lifetime (in addition to any annual $14,000 tax-free gifts). At death, the first $2,430,000 of the remaining value in your estate will be free of federal estate taxes. Assets beyond that are taxed, beginning at 18 percent rising as high as 40 percent. This unified concept is important to understand because strategies can be taken during your lifetime to reduce future taxes. For example, you might give away assets that are growing in value, thus removing from your estate any future growth that could be taxed at your death.

Failure to name a charity as beneficiary. If you intend to pass a portion of your estate on to charity, consider naming the charity as a beneficiary of an IRA. The IRA assets will go to the charity at your death free of estate or income taxes which is not the case for individual beneficiaries other than a spouse.

Keeping life insurance in the estate. Buying additional life insurance, perhaps to pay for potential estate taxes, can add to your estate tax problems if it's kept in the estate. The proceeds won't be subject to income taxes, but they will be subject to estate taxes. Use of an irrevocable life insurance trust is often the solution.

Failure to update your estate plan. Marriage, death, birth, inheritances, and changes in tax laws may compel a modification of your existing estate plan, including changing beneficiaries, adding trusts, and so on.

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