

The Basic Tools of Estate Planning

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It is a common misconception that estate planning only applies to extremely wealthy people. That is simply not true. If you add up the value of your personal assets, you may be surprised at what you find. Fortunately, proper planning can reduce or eliminate the estate tax, while addressing any special needs. Here are some of the basic estate-planning tools.

- **Simple Will:** A will specifies how most of your property is divided among several beneficiaries. At the very least, you should have a simple will so that you can decide how your assets will be transferred at your death. If you don't have a will, state law generally controls who receives your property.
- **Complex Will:** If your children are minors (or are mentally incompetent), a complex will may be used to establish a trust for their benefit. How it works: The trustee pays out funds to the children as they need it for medical expenses, education and so on. Trust funds ultimately can be paid to the children in staggered amounts. A complex will may also be used to make charitable bequests.
- **Living Trust:** A living trust allows you to pass assets to your beneficiaries without going through probate. This may save time and money. If you do utilize a living trust, you may arrange to have assets passing under your will "pour over" into the trust. In community property states, such as Arizona, it is common for spouses to have joint living trusts. A further benefit to a living trust is that your trustee can manage the trust for your benefit in the event you become incapacitated prior to death. A will, no matter how complex, only goes into effect after death.
- **Life Insurance Trust:** If properly structured, this trust enables you to transfer vast amounts of wealth free of estate or gift tax. Simply put, you transfer a life insurance policy to the trust. Each year you put money in the trust to pay the premiums. The proceeds are not subject to federal estate tax upon your death (unless you die within three years of the transfer of the policy to the trust).
- **Other Trusts:** You may design other trusts to take advantage of the current generous estate- and gift-tax provisions. Also, trusts may be used for various other purposes, such as shielding assets from creditors or an ex-spouse. Consult an experienced estate-planning expert.

- **Powers of Attorney:** A durable general power of attorney can be established for someone to act on your behalf with respect to financial matters if you become incapacitated. The named agent can do such things as transferring your assets into your Living Trust or signing your tax returns.
- **Health Care Directives:** (including Healthcare Powers of Attorney, Living Wills and Mental Healthcare Powers of Attorney) can provide guidance in medical emergencies or end of life decisions.

Finally, remember that these are bare-bones descriptions. Contact your Henry & Horne, LLP tax adviser to determine which estate-planning tools to put in your kit.

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