

Six Estate-planning Steps for This Year

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The scheduled one-year repeal of the federal estate tax in 2010, plus the related changes in the federal estate- and gift-tax system, have certainly clouded estate-planning matters this year. It is expected that Congress will eventually take some legislative action, but that does not mean you should stand by idly. It is important to have your estate plan reviewed to ensure it still meets your objectives and that it is positioned to accommodate future developments.

Here are six steps you may take to shore up your estate plan under the current conditions.

1. Establish a power of attorney. This legal document appoints another person to act on your behalf in financial and legal matters and may remain in effect in the event you become incapacitated. Without one, a court may have to appoint a guardian to oversee your financial affairs. Normally, you will designate a close family member or friend, or a qualified professional such as an attorney or accountant. The document may be supplemented by a health-care proxy authorizing someone to make medical decisions on your behalf.

2. Review beneficiary designations. Certain assets do not normally pass through a will or living trust. If you have life insurance, make sure you have properly completed the beneficiary designation form designating the beneficiaries of the proceeds. Beneficiary designation forms for your retirement accounts should also be filled out and coordinated with the rest of your estate plan. Make sure the forms include primary and alternate beneficiaries.

3. Weigh a Roth IRA conversion. Although you must pay tax when you convert a traditional IRA to a Roth, future qualified distributions are completely tax-free. Also, unlike a traditional IRA, you are not required to take annual minimum distributions after reaching age 70½. Thus, amounts in the Roth IRA can continue to grow without any tax erosion. Previously, you could not convert in a year in which your modified adjusted gross income (MAGI) exceeded \$100,000, but this limit has been eliminated, beginning in 2010. Added incentive: For a conversion in 2010, the tax may be paid evenly over 2011 and 2012.

4. Consider state tax implications. If you are thinking of moving out of state, find out the state tax laws in the new jurisdiction. About half the states have a separate estate tax that applies if you live there or own real estate there. These taxes apply whether or not a federal estate tax exists. All states will honor a legally valid will, but specific terms drafted for one state might create problems in another. Have your will reviewed by an attorney.

5. Use trusts when appropriate. A trust can be an important estate-planning tool beyond any available tax savings. For instance, a trust may be used to hold assets for young children, avoid spending sprees by family members or protect assets from a former spouse or creditors. Coordinate trusts with other aspects of your estate plan.

6. Tie up other loose ends. Your estate plan may help facilitate a variety of other measures such as ensuring tuition payments for your grandchildren, developing a succession plan for the family business, keeping a vacation home in the family or giving gifts to charity. Regardless of how the estate-tax issues are resolved, you can incorporate these objectives into your estate plan.

Finally, arrange a meeting with your tax adviser to discuss the particulars of your estate plan. Depending on your situation, a formula clause in your will may need to be revised or other estate-planning documents may need to be changed. We will also keep you posted on any significant developments affecting the estate-tax law.

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