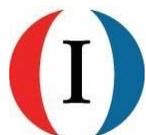


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**Investopedia**, Contributor

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## 5 Estate Planning Tips

Regardless of the size of your estate, an effective estate plan is necessary if you want to make sure that the right parties inherit your [assets](#). If tax is an issue, your estate plan can help to limit the amounts that your beneficiaries will owe. You might find the following tips helpful, even if you already have an estate plan in place.

**SEE:** [5 Ways To Afford Early Retirement](#)

### **Declare Who Gets What**

If you fail to prepare a will, the laws that govern your domicile determines who inherits your assets. This includes nonfinancial assets for which you might consider the disposition important, such as that vintage car you consider to be your pride and joy, or the piece of jewelry that your favorite niece has always admired.



[Click for full photo gallery: How To Start A Conversation About Estate Planning](#)

Be careful here, as your will might not govern your assets for which [beneficiary](#) designations are subject to the terms of the governing agreements. This includes tax-deferred retirement accounts in the United States and life insurance policies. Check with the [financial](#) institution that holds the asset to determine the rules that apply.

### **Choose How It Should Be Spent**

If you plan to have some of your assets allocated to cover specific expenses, you may need to create a trust that includes such provisions. For instance, you might want to earmark specific amounts to cover college and special needs expenses for certain individuals. The trustee of the trust would be legally bound to ensure that the designated amounts are used to cover these expenses.

### **Minimize Estate and Income [Taxes](#)**

If you anticipate that your beneficiaries will owe [estate](#) and [income tax](#) on the amounts that they inherit, you might be able to minimize these [taxes](#) by using tax-efficient strategies. For instance, you could leave taxable assets to charities if charities are included in your list of beneficiaries, and leave your tax-free assets, such as [Roth retirement accounts](#), life insurance and after-tax savings, to your other beneficiaries.

Also, you can reduce your taxable estate by [gifting](#) amounts to your beneficiaries while you are alive, and the gift would be nontaxable if it is under \$13,000 for each recipient. (For more, check out [4 Ways To Minimize Estate Taxes](#).)

### **Offset Taxes with Insurance**

Your beneficiaries can lose a significant amount of the taxable assets that they inherit to estate and [income taxes](#). This can be offset with the proceeds from [life insurance](#).

For instance, if your estate planner estimates that your beneficiary will owe \$500,000 in estate and income tax, you can purchase a [life insurance plan](#) for that amount and name the affected party as the beneficiary. Since life-insurance proceeds paid to your beneficiaries are tax-free, the entire \$500,000 would be available to pay the taxes owed.

## **Work with an Estate Planning Team**

You may need the assistance of experts from several fields. This includes the following:

- An [estate planning](#) attorney who can help with the designing and creation of trusts and wills, as well as ensuring that your estate plan meets federal and state requirements. It is often best to work with a local attorney as he/she is more likely to be familiar with the laws of the area in which you reside.
- A tax professional that can help to minimize the amount of income taxes that your beneficiaries would pay on the amounts they inherit.
- A [financial advisor](#) can help you to design a suitable investment portfolio for your assets. When choosing a financial advisor, ensure that he/she is knowledgeable about the estate planning needs and rules for retirement accounts.

If you are working with a team, make sure that they routinely communicate with each other, so that they are all aware of developments and changes. If you are unsure about whether your estate is large enough to need the services of a team, interview a few of these professionals on a complimentary consultation basis, so as to get an insight into when their services would be necessary.

### **The Bottom Line**

Many individuals tend to focus on the aspects of finances that affect them during their lifetime and procrastinate about making decisions for their estate. However, failing to put an effective estate plan in place can be costly to your beneficiaries and cause friction if some feel they were unfairly disinherited by your inaction. Make appointments with your estate planning team, and make sure that your estate plan is customized to suit the needs of you and your beneficiaries. (To [learn](#) more, check out our tutorial on [\*Advanced Estate Planning\*](#).)

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