



# Bill R. McCracken Accounting, Tax & Financial Services

Accredited Business Accountant®

Enrolled Agent

Licensed Tax Consultant

(503) 656-0699

P.O. Box 2214

Oregon City OR 97045

(503) 656-1980 Fax

mrbilltaxman@msn.com

www.mrbilltaxman.com

October 2009

*Who should inherit my doggie biscuits and toys?  
Estate planning involves many big decisions!*



## Will You...Won't You...Why?

Here's our annual newsletter about wills, beneficiaries and other estate issues. **Arranging your affairs is one of the most generous and thoughtful gifts you can provide your heirs.** You are never too young or too poor to ignore this subject. If you don't legally designate your final wishes in writing, the state will do it for you with no consideration for your legacy. Be sure your heirs, or your estate executor, know where to find your will and other important papers. If you keep them in a safe deposit box, you might consider authorizing access to your executor. Communicate your desires verbally as well as in writing.

We can only offer a brief overview of some of the key issues. The topic of wills, estates and inheritances can be very complicated depending on your personal situation. As always, if you have any questions, please give us a call at 503-656-0699.

## Where There is a Will...

A Will is one of the simplest ways to transfer assets after your death. Through your will you can designate who is to receive your assets upon your passing. **We strongly recommend using an attorney to draw up your will.** "Do-it-yourself" will kits and software may not be completely legal in all states or cover all aspects of your estate. For many people, a simple will is all that is needed. A simple will essentially leaves all your assets to a one or more people or charitable organizations, per your instructions. A simple will is adequate for most estates valued under \$1 million.

If you own a house, car, property, antiques, or have a bank account, a will allows for the legal transfer of these assets. If you have minor

children, a will enables you to designate their legal guardian if both parents are deceased. Otherwise, the court and state will decide who will raise your children. A will does not supersede beneficiary designations (discussed later) or trusts. In most cases, a well-written will can avoid lengthy probate.

A will needs to be updated whenever you experience a significant life change such as a marriage, divorce or death of spouse. A will should be updated when you remarry, add a child to your family or when a child dies before you. You should review your will with an attorney if you move to a new state or country. As you add assets or sell them, your will may need updating. If you want to support a particular cause or organization through your will, you may need to update it to reflect your wishes.

## Giving the Children Their Inheritance Now

It sounds appealing to sign your adult child onto your home (or other property) title while you are still alive and living in the home. It may not be a wise idea, tax-wise. You may have a gift tax issue, depending on the value of the property. Also, there is no step-up in basis for the child, so more taxes could be due when the property is sold. If your goal is to avoid probate, leave your property to an heir in your will. When inherited after your death, the recipient gets the property at a new, maybe higher, basis – the fair market value of the property on your date of death. The same thing applies to stocks and other brokerage investments.

An interest in gifted property can become an asset vulnerable to legal judgment. If your child divorces his or her spouse, is sued or declares bankruptcy, the property you gift may end up in the hands of someone you never intended.

## Benefitting the Beneficiary

A beneficiary is someone you designate to inherit an investment account upon your death. IRA's, Roth IRA's, some brokerage accounts and life insurance policies require you to name a beneficiary when you first open the account. As with a will, you should make it a point to periodically review your beneficiary designations as major life events occur.

Beneficiary designations take precedence over any named designations in your will. Your former spouse may still be your IRA beneficiary – is that your intent? You may wish to name a grandchild, niece or nephew as a beneficiary so they have some money for school, a first home, etc. ***Never EVER name a Trust as a beneficiary for an IRA account.*** If you do, all the funds must be paid out in one year.

## Stepping Up to a New Basis

When an asset's ownership is transferred upon death, most of the time it will get a "step-up" in basis to its fair market value on the date of the first owner's death. Basis is the original purchase price of the asset and is used to calculate capital gains (the amount to be taxed) when the asset is sold. If your father gives you 20 shares of stock he bought in 1960 for \$10.00 per share and you sell it for \$500.00 per share in 2009, you will pay tax on \$9,800 of capital gain. If you inherited the 20 shares upon his death and they were worth \$400 per share on that day, you would only pay tax on \$2,000 of capital gain.

**If you have moved during the year, make sure we have your current mailing address!**

## Trusting to the Future

Not all estates need to be organized in a trust. Generally, under current tax laws, estates valued at over \$3 million are most likely to benefit from formal estate planning. To draw up an estate plan or trust, you must see an attorney who specializes

in this area. If you already have a trust, have a lawyer periodically review it to make sure it is still current with the laws as well as your personal situation. If your trust was created when you lived in a different state or country, have it reviewed to ensure it meets the laws of your current home.