Ten Common Estate Planning Mistakes to Avoid

Contrary to popular belief, estate plans are not just for the rich and famous. Most people have at least one thing of value—such as money in bank account, a car, a home. The reality is that many people could benefit from having an estate plan in place. Not only can it help maximize the actual value of the estate you’ll pass on to your heirs and beneficiaries, you’ll have to opportunity to make informed decisions concerning how your assets should be handled while you are still alive.

Below are ten common estate planning mistakes to avoid.

1. **Not having an estate plan at all.** The most common estate planning mistake is not having an estate plan. Unfortunately, no one can escape death, but thoughtful planning for what may occur after your death is one of the most important things you can do to ensure your personal and financial affairs will be handled properly when the inevitable occurs.

2. **Not updating your will.** There are many changes that can take place within a family or business structure, such as births, deaths, divorces, and new property acquisitions. Therefore, to ensure the assets you leave behind are given to those you intend, it is wise to perform a periodic update of your will when these changes take place.

3. **Not planning for disability.** Dying is not the only reason to have an estate plan in place. An unexpected or long term disability can often have greater consequences on your personal and financial affairs. Decisions such as who will handle your finances, raise your children, or make healthcare decisions on your behalf are extremely important. Therefore it may be necessary to appoint a power of attorney and/or create a living trust to work on your behalf if you’re unable to do for yourself.

4. **Not making gifts to reduce your estate tax.** A common estate planning mistake is failing to make gifts under your estate plan to reduce your estate taxes. According to the Internal Revenue Code, gifts up to $13,000 a year per spouse may be excluded from estate tax. So gifts made to individuals, groups, or business, are subject to a $26,000 estate tax savings. Not only will this leave more money in your estate for distribution, you can positively impact a specific person or individual cause of your choosing.

5. **Putting your child’s name on the deed.** Speaking of gifts, when you put your child’s name on the deed to your home, you are essentially giving your child a hefty sized taxable gift. (See number 4 above). While gifts up to $13,000 are excluded from estate tax, gifts more than $13,000 per spouse are taxable. So, no matter how well your intentions may be to gift the family home to your child, you may very well end up giving him or her a lifetime of financial headaches. Instead, create an estate plan that passes on the home or value via an inheritance.

6. **Choosing the wrong person to handle your estate.** Sometimes the person you think is the best choice for executor of your estate is not always the case. For example, while you may think your spouse or child may be best suited to handle the affairs of the estate when you are gone, there may be someone else who is not as personally invested to objectively handle the extensive duties and demands required of an executor, trustee, or guardian. Surprisingly, this may not always be your spouse or children.

7. **Not transferring your life insurance policies to a life insurance trust.** Many people don’t realize that proceeds from a life insurance policy are subject to a hefty estate tax when you die, resulting in most of the proceeds going to the IRS instead of your intended beneficiaries. One way to avoid this easily-overlooked estate planning mistake is to set up a life insurance trust to act as the owner of your life insurance policies. This way you avoid hefty estate taxes being placed on the insurance proceeds, and spare your spouse or beneficiary any undue hardship in waiting up to several months for a pay-out of the insurance proceeds.

8. **Not taking advantage of the federal $675,000 exemption (per spouse).** For married couples, one of the easiest ways to save on estate taxes is to use the federal $675,000 exemption for each spouse. That way, when a spouse dies, instead of losing the deceased spouses individual exemption amount, a portion of the estate will be protected under an exemption trusts (also called credit shelter trust).
9. **Procrastinating.** Even for those who realize an estate plan can benefit them, this realization sometimes comes too late in time - such as when an unexpected death or disability occurs. To avoid the stress of not having a proper estate plan in place, it would be wise to meet with an estate planning lawyer to help you draw up a basic estate plan at the minimal.

10. **Not meeting with an experienced legal, financial, or tax professional.** Not meeting with an estate planning lawyer or other professional is probably the most common mistake a person might do, especially if you have complicated assets or if you have doubts about your own ability to draft an estate plan. An experienced attorney can provide you with tax-planning strategies based on the particular needs and demands of your estate and help you minimize (or even avoid) paying large estate taxes.
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