

## WHAT EXACTLY IS YOUR ESTATE?

Updated March 2002

Knowing what is included in your estate and the proper valuing of those assets is crucial in both planning your estate and maintaining your estate plan. Valuing your estate should be an ongoing process and is critical in determining whether you have any exposure to estate or gift taxes.

### ***What Is Your Federal Taxable Estate?***

Your estate for federal estate and gift tax purposes is virtually everything you own. Your estate includes all your cash accounts including certificates of deposit, money market funds, checking accounts and savings accounts. Stocks, bonds, brokerage accounts, mutual funds, treasury bills, notes and bonds are all counted toward your taxable estate. The value of any real estate you own, regardless of where it is located, is included in the overall value of your estate. Also, surprising to many people, your IRA, 401(k), 403(b), Thrift Savings Plan and other “qualified retirement plans” are part of your federal taxable estate. Likewise, annuity contracts and life insurance are included in your total estate. And finally, all your tangible property like furniture, jewelry, works of art, cars and boats are included in your estate.



The list of assets included in your estate does not just end with those you own in your own name. Assets held jointly with a spouse are considered to be one half owned by your estate. All assets held in joint names with another party, other than your spouse,

may be 100% includible in your federal taxable estate depending on who contributed the assets. For example, if you contributed 100% of the assets then, despite the joint ownership, the asset is 100% included as part of your estate. Any trusts in which you have an ownership interest (known as grantor trusts) are also included in your estate as well as certain “split interests” such as life estates in real estate.

### ***How Do You Value The Assets In Your Estate?***

The simple rule of thumb is that all assets in your estate for federal estate and gift tax purposes are valued at the prevailing market value. This means that what the asset is worth on the day of valuation is what is counted, not the price at which you bought the asset. For instance, if you bought 100 shares of Microsoft at \$80 per share and the price of those shares is now \$143, the value in your estate is \$14,300. This rule applies for stocks, bonds, treasuries, cash accounts, real estate, all assets held in your qualified retirement plans, and tangible personal property. Annuity contracts are valued at their face value plus any deferred buildup in the contract. Life insurance is valued at the face value of the contract and any further insurance purchased with premium payments.

### ***Why Is The Valuation Of Your Estate So Important?***

The value of your estate is critical for calculating estate and gift taxes. An increase in the value of your estate could change the estate planning strategies you should employ. While you might have been “safe” two, three, five or ten years ago from incurring any estate or gift taxes at all, values on your assets

may have increased markedly. Given the rise in the real estate market in the mid to late 1980's and the early part of this decade coupled with the spectacular increase in the stock markets in the 1990's, some estates have increased dramatically in size. For instance, the couple that bought a home ten years ago, owned shares in a few mutual funds and had some qualified retirement plans may have been below the \$600,000 federal estate tax threshold for an individual at that time. Today, however, those assets at their current market value may yield an estate over \$1,000,000 estate tax threshold. If one spouse dies leaving the assets to the surviving spouse, a substantial estate tax would be payable to the IRS at the time of the surviving spouse's death. By not checking on the value of the estate and doing proper estate planning to respond to the increase in values, this same couple would leave a large amount of these hard won dollars to the IRS rather than to their family. The same valuation problem applies to the single individual whose estate may have increased in recent years and, thus, is subject to the same estate taxes.

### ***How Do You Value Your Estate?***

The key to valuing your estate is to organize the information. You should make a list of all the assets which you own or in which you have an ownership interest. Once you have organized this list, you can then value each item. Estimates for real estate can be based on the current sales price of similar homes or real estate in the neighborhood. For stocks, bonds, mutual funds and similar assets, you can use the most current statement or locate the price in the newspaper. Cash accounts are reflected in your last statements. Annuity and insurance contracts can be valued at current face value and so on. Thomason and Hessmer can provide you with an Asset Inventory Worksheet to fill out which makes this task easier. Please call our office and we will send one to you.

### ***What Are Your Next Steps?***

Once you have completed your valuation, compare the value of your estate to when you initially created your estate plan. If there has been an increase, it is prudent to schedule a meeting with your attorney at Thomason and Hessmer to review your current documents in light of the increase in your estate. Strategies to reduce unnecessary exposure to taxes and ease distribution of your estate to your heirs can then be discussed and quickly implemented. An estate plan, just like your car, requires scheduled maintenance. Revaluing your estate and having your estate plan reviewed once every three to five years is crucial to protect your assets against unnecessary taxes and expenses.

