

Cash, Castles, Future Compensation: What's Includable in Your Estate?

Although you may not own a castle, do you know which of your "treasures" will be included in your estate? Federal estate taxes can take a large chunk out of the assets you hope to leave your heirs—as much as 45% in some cases. Federal estate taxes will generally be due if the sum of your net taxable estate at your death exceeds your individual estate tax exemption (\$2,000,000 in 2007).

Regulations relating to the taxation of property owned at death contain a catch-all definition stating that the "gross estate of a decedent who was a citizen or resident of the United States at the time of his death includes the value of all property—whether real or personal, tangible or intangible, and wherever situated—beneficially owned by the decedent at the time of his death." What does this mean? The first step in understanding the potential implications of the federal estate tax is to understand some of the major items that may comprise your estate:

- **Personal assets.** Most people who have looked into the matter are aware that their personal property, savings, real estate, and retirement plans, as well as the proceeds of any life insurance policies they own, are included in their estates.
- **Rights to future income.** What may be less well-known is that rights to future income, such as rights to payments under a deferred compensation agreement or partnership income continuation plan, may be includable in your estate. These rights are commonly referred to as "income in respect of a decedent (IRD)" and may be includable at their present commuted value.
- **Business interests.** Likewise, interests in any business you own at death, whether as a proprietor, a partner, or a corporate shareholder, may be includable in your gross estate.
- **Social Security benefits.** The value of Social Security survivor benefits received as either a lump sum or a monthly annuity is not includable in your gross estate.

Reassess Your Goals

The actual task of determining what may be included in your gross estate may require professional, in-depth analysis. It is also wise to have your estate reevaluated periodically to help protect your beneficiaries and heirs from having to choose between fulfilling your wishes and meeting federal estate tax requirements. In addition, bear in mind that certain estate planning documents, coupled with adjustments to property ownership arrangements, can help minimize estate taxes and maximize estate tax credits. Consider consulting with your qualified financial, legal, tax, and insurance professionals to help ensure that your current decisions are consistent with your long-range estate planning goals and objectives.