

# CHRISTIAN MONEY \$ENSE

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## Estate Planning 101- The Basics

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People mistakenly think that Christmas is the most joyous time of the year. Wrong! The time that everyone *actually* looks forward to is the annual review of their estate plans. Well, maybe not - but this process is still important. A well-planned estate is a gift to your family. In this first of four articles, let's look at estate planning basics.

### What is my estate?

Your estate is the value of your property when you die. It includes everything you own.

### How much can I pass to my family?

You can leave it all to your family and friends, but depending on the value of your estate, you may have to pay estate taxes. Currently, you can pass an unlimited amount of assets to your spouse and not pay estate taxes. However, non-spouses are different. You can only pass \$1 million in total to people other than your spouse. Estates larger than \$1 million (that are left to non-spouses) are subject to estate taxes hovering around 50%.

### Three different types of taxes

- Income tax – Most of us are familiar with these because of our paychecks.
- Capital gains tax – The tax paid on the difference between what you bought an asset for and the price you sold it at (land, stocks, house).
- Estate tax – The value of your assets when you die. As discussed above, you may or may not pay this tax based partially on whom you leave your assets to. Based on IRS statistics, only 5% of estates have assets greater than \$1 million.

It is important to understand the difference between different types of taxes. Some estate planning instruments are subject to one, but not others. For example, your family will not pay income tax on your life insurance proceeds when you die, but the value of your policy will most likely be included in your estate and be subject to estate tax.

### Estate tax vs. Probate

A lot of terms get thrown around estate-planning workshops. Sometimes, we can leave a workshop thinking that certain terms are synonyms when they actually are not. Two terms that are not synonyms are estate tax and probate. Let me explain the difference.

- Estate tax – As note above, estate tax is the value of your assets when you die. The calculation is based purely upon dollars. An estate tax return gets filed with the IRS to determine the value of your estate and whether or not you need to pay estate tax. In other words, this is Uncle Sam.
- Probate – When you die, your assets need to be retitled into someone else's name. The probate court handles this process, and your Will indicates your wishes on this matter. Some assets (retirement plans, annuities, life insurance) do not pass through probate, but are included in your estate tax return.

That covers some basic issues. Next week we will discuss the benefits and limitations of creating a Will.

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