EASY ESTATE PLANNING TIPS FOR EVERYONE

In the midst of uncertainty, certain strategies continue to work no matter the climate. The following are a few tried-and-true estate planning techniques that are easy for anyone to implement and can have a substantial economic impact over the long term for you and your family.

THE ANNUAL EXCLUSION

Never underestimate the power of the annual exclusion. You can give $16,000 to someone each year without paying any gift tax. If you are married, your spouse can do the same. This means that a couple with two children and four grandchildren could give $192,000 to their descendants in a single year without incurring gift tax.

	SPOUSE #1	SPOUSE #2
GIFT TO CHILD #1	$16,000	$16,000
GIFT TO CHILD #2	$16,000	$16,000
GIFT TO GRANDCHILD #1	$16,000	$16,000
GIFT TO GRANDCHILD #2	$16,000	$16,000
GIFT TO GRANDCHILD #3	$16,000	$16,000
GIFT TO GRANDCHILD #4	$16,000	$16,000
GIFTS SUBTOTAL	$96,000	$96,000
TOTAL ANNUAL TAX-FREE GIFTS FOR COUPLE	$192,000	

Doing this consistently over a decade, the couple could transfer $1,920,000 free of gift and estate tax.

The key to using the annual exclusion in your estate plan is to use it every year. You don't have an opportunity to accumulate or carry over any unused amount, but you do get a fresh exclusion every January 1.

LIFETIME CREDIT

If you want to give more than $16,000 to someone in a year, you can do so without incurring gift taxes, but it will eat into your lifetime credit.

Your lifetime credit, also known as your unified credit or estate tax exemption, is a pool of credit you can use in your lifetime (when making taxable gifts) or at your death (when making taxable transfers of your estate). In other words, your lifetime credit reduces your overall transfer tax liability. For 2022, the lifetime credit is at a historical high of $12.06 million per person, which means that between the gifts above the annual exclusion during your lifetime, and the transfers at your death, you can transfer $12.06 million of assets completely tax-free.

Unfortunately, this boosted lifetime credit is projected to sunset after 2025 to a much lower level — $5 million per person, indexed for inflation. And lawmakers have the power to reduce this exemption even sooner.

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EDUCATION SAVINGS FOR FUTURE GENERATIONS

With the generous lifetime exemption, only a fraction of taxpayers will owe estate tax, but even those with modest estates would be wise to build an estate plan. Consider your loved ones' education needs. You may be supporting children who are pursuing advanced degrees, or you may want to help pay for your grandchildren's future college education. A great way to do this is to contribute to an education savings account, like a 529 plan.

EDUCATION SAVINGS ACCOUNTS

A 529 plan is an investment account you own that grows tax-free. If you use the funds to pay for qualifying education expenses for your loved ones, those earnings will not be subject to income tax. But 529 plans can save you more than just income taxes; they can also reduce your gift and estate tax.

Contributions to 529 plans are considered gifts to your identified beneficiary, but if you keep annual contributions below the $16,000 gift tax exclusion, you won't owe gift taxes or eat into your lifetime credit. If you want to contribute more than the gift tax exclusion — say, if you want to get a good head start on your grandchild's college savings account so it can start to accumulate investment earnings — you may be able to do so without incurring gift tax, but only if you make the right election.

With a special IRS election, you can spread your 529 plan contribution equally over the next five years for gift tax purposes. This allows you to dump a large sum into your grandchild's 529 plan now so that it can start accumulating income tax-free earnings, but you won't owe any gift taxes.

OTHER EDUCATION SAVINGS TECHNIQUES

If you don't have a 529 plan, you can help your loved ones in other ways. Payments made directly to the learning institution are not considered taxable gifts and will therefore not reduce your annual gift tax exemption or your lifetime credit. Although many grandparents would prefer to establish a 529 plan to take advantage of the income tax savings it provides, paying school tuition directly can be an easy way to support your grandchildren if you haven't yet established an education savings plan.

Let's look at an example of how you can support your loved ones even without the use of a 529 plan.

EXAMPLE

Your adult child wants to make a career change, so they've decided to go back to school to get a law degree. You want to support them, but because you didn't anticipate their career change, you didn't establish a 529 plan in time. There are still three ways you can help:

1. **You can pay their tuition directly to the school without reducing your annual gift tax exemption.**
2. **You can give your child up to $16,000 a year for necessities like car insurance, groceries, and rent.**
3. **You can pay health insurance premiums, hospital bills, or other medical bills directly to the provider. Like school tuition, direct payments do not count as gifts.**

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PLANNING DOCUMENTS

Don't overlook basic planning documents and the impact they have on your family. When was the last time you reviewed your will, trust, healthcare power of attorney, durable power of attorney, or living will? Do they support your current needs? Do they consider current family dynamics? Do they include recent additions to the family, like new spouses and grandchildren? These planning documents can have a lasting impact on your health and welfare, and they will affect your family well after you're gone, so take care when managing them and keep them updated.

Here is a checklist of important planning documents to look over with your estate planner.

- Last will and testament
- Advance healthcare directive (living will)
- Financial power of attorney (POA)
- Healthcare POA
- Durable POA
- Property deeds and titles for:
  - Homes
  - Vehicles
  - Other real estate
- Revocable living trusts
- Successor trustee designations
- Guardianship designations
- Beneficiary designations for:
  - 401(k)s
  - Individual retirement accounts (IRAs)
  - Life insurance policies
  - Pensions
- List of digital assets, logins, and passwords
- Digital executor designation
- Life insurance policies
- Funeral instructions

CONSULT YOUR ESTATE PLANNING ADVISORS

While the strategies outlined here work for most people no matter the climate, there may be advanced estate planning ideas that can be deployed for your particular situation. Because every family circumstance is different, **ASK YOUR CRI PROFESSIONAL** what might be right for your situation.