Estate Tax Planning vs. Planning an Estate

The federal estate tax exemption amount varies year-to-year because of inflation adjustments and legislative changes. The reality however, is that in recent times, the exemption has always been in the millions of dollars meaning that individuals and married couples can pass significant wealth to family members and friends without transfer taxes. With fewer individuals owing federal estate tax, you might wonder, "Do I really need an estate plan if my net worth is well below the federal estate tax limit?"

The answer in almost all cases is **"Yes."** Everyone needs to have an estate plan. There is a difference between estate tax planning and estate planning. Regardless of the size of your estate, we'll outline five reasons why you still need to have an estate plan.

5 Reasons Why You Need an Estate Plan

1 Provide for Your Loved Ones

If you don't have an estate plan, your assets will be distributed according to the laws of your particular state. The so-called "intestate" succession laws distribute a person's assets in fixed percentages to specific members of the person's family, and if there are no appropriate family members, then the assets will generally pass to the state itself. If you want to leave assets to a significant other, to a friend, or even to take care of a pet, you must have a written estate plan.

2 Avoid Probate

An estate plan can help you avoid probate, which is important even if you don't have minor children. Probate often delays assets from getting to your loved ones. More important, it can also be a more expensive avenue that may ultimately reduce the amount of assets that your loved ones receive. Also, probate is a public proceeding. The court hearings and the documents filed in probate become public information whether you like it or not.

3 Help Reduce Family Disputes

Your plan should clearly dictate how your assets are to be distributed. This can help reduce friction among your family because you will have made your wishes known.

4 Help Arrange Your Affairs in the Event of Deteriorating Health and/or Mental Capacity

If at some future date you lack the mental ability to make your own financial and medical decisions, then who will make those decisions for you? An estate plan will include documents that appoint decision-makers to make financial and medical decisions for you should you become incapacitated. Through medical directives you can also state what type of medical treatments you do or do not wish to receive if you are too ill to communicate your wishes.

5 Make Your Wishes Known

This is possibly the most important reason. In addition to determining the distribution of your assets, avoiding probate and designating certain people to make required decisions, your estate plan can communicate other wishes that you may not have expressed to your family. While making your desires known is important, your estate plan also eliminates unnecessary stress for your loved ones. Your estate plan answers many difficult questions and allows your family to focus on the grieving process and your legacy.

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