

Regardless of whether the death of a loved one is unexpected or anticipated, dealing with it is always difficult and usually catches family members unprepared. A little planning can go a long way in easing the burden.

Plan ahead

- **Prepare a will.** A will documents the intentions of the person for whom it was written. A will is appropriate for anyone age 18 or older. A simple will gives instructions for how you want your individual property distributed to your heirs. A living will affords your loved ones peace of mind regarding your medical wishes and life support intentions.
- **Plan for the financial welfare of your survivors.** A professional financial advisor can help assure that your financial plans accomplish your goals. Insurance policies, retirement plans, investments, trusts and other means of support need to be structured correctly to yield the greatest benefit to survivors and the least amount of taxes or penalties.
- **Express your preferences for funeral arrangements.** A funeral trust is one way to plan for the funeral expenses.
- **Choose and ask someone you trust to be your personal representative.** A personal representative manages the financial affairs of another. If possible, acquaint your representative with your lawyer, tax preparer, financial advisor and insurance agent, as they will need to work together when settling your estate.
- **Keep your investment records, business records, tax records and outstanding liabilities up-to-date** and easily accessible to the personal representative.

- **Keep open communication about upcoming commitments and responsibilities** that others may need to assume in your absence.

How does death affect assets?

An estate is created at the time of death. The estate consists of assets that were owned at the time of a decedent's death. The estate is responsible for paying all remaining debts of the decedent, as well as any incurred to handle the final affairs. The estate will exist until all of the bills are paid and the remaining assets have been distributed.

What needs to be done?

After the funeral arrangements are made and services conducted, the affairs of the estate need to be completed. This generally involves probating the estate, reading the will and carrying out its directives.

The personal representative is responsible for the distribution of the property and filing the final income tax returns. The personal representative is required to notify the IRS that he or she is acting in that capacity. The following actions and forms are needed:

- **File IRS Form 56, Notice Concerning Fiduciary Responsibility.** This form notifies the IRS that a personal representative has been appointed and should receive any related correspondence.
- **File IRS Form SS-4** to receive a federal identification number (ID) for the estate.
- **Notify appropriate financial institutions of the death.** The name on the accounts should be changed to that of the estate (the estate ID number will be needed for this) or to that of the joint owner who has rights of survivorship.

- **File the decedent's final income tax returns.** The final return is due by April 15 of the year following the year of death. All income received through the date of death is reported on the final Form 1040 or 1040A. If elected, medical expenses can be claimed on the final return. Surviving spouses who have not remarried by the end of the year may file a joint return.
- **IRS Form 706, Estate Tax Return.** The estate return lists the value of all assets that the decedent owned at the time of death. Funeral expenses and medical expenses (if elected) are deductions reportable on this form. Under most circumstances, Form 706 is filed only when the value of the assets included in the estate are worth more than that year's exemption. For 2014, the exemption is \$5,340,000 and the maximum tax rate is 40 percent. For 2015, the basic exclusion amount increases to \$5,430,000. Form 706 must be filed within nine months of the date of death, unless an extension is obtained.
- **IRS Form 1041, Estate Income Tax Return.** All the taxable income received by the decedent after the date of death is reported on this form. If the estate cannot be settled in one year, this form must continue to be filed as long as there is gross income of \$600 or more in a year. If the decedent operated a business at the time of death, the estate may continue to operate that business. The business income is reported on this form.

If any property is sold, such as a home, stocks or bonds or personal property, the estate must report that sale. The estate is able to deduct certain expenses that it pays. Property taxes, accounting and administrative fees and other expenses of carrying out the distribution of the assets are allowed.

Form 1041 should be filed by the fifteenth day of the fourth month in the year following the year of death. This will be April 15 for a calendar year estate. Choosing a fiscal year may be easier if the affairs of the estate can be completed within twelve months.

What happens if tax is due?

Taxes owed by the estate are generally paid from estate income or from the sale of estate assets. If assets and/or income are distributed before the taxes are paid, the personal representative or the beneficiaries may be responsible for paying the taxes to the IRS.

The personal representative should work closely with a lawyer, tax preparer, financial advisor and insurance agent to accomplish all of the necessary obligations.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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