



## **How Should I Prepare for Death?**

Death is never an easy time for our loved ones. Regardless of whether it is unexpected or anticipated, the time is difficult. The more we can do to plan and prepare our loved ones for the necessary activities, the better.

## **What Can Be Done Prior to Death?**

1. Have a will prepared. It makes no difference what your age is, a will can help carry out any particular wishes you may have. A living will can also be a useful instrument when decisions about life support systems are desired.
2. Plan for the financial welfare of your survivors. This may be through insurance policies, retirement plans, investments, trusts, or other means.
3. Identify the funeral arrangements you prefer. Funeral trusts can be set up to take care of the cost of these arrangements.
4. Choose a personal representative who will be able to act according to your wishes. Be sure that the individual agrees to the responsibility.
5. Make sure that someone has access to the information about your investment records, business records, tax records, and outstanding liabilities.
6. Discuss with your survivors the responsibilities they will have.

## **What Happens When I Die?**

At the time of death, an estate is created. This estate holds the assets that were owned at the time of the decedent's death. It is also responsible for all of the debts the deceased left unpaid as well as those incurred to handle the final affairs. The estate will be in existence until all of the bills have been paid and the remaining assets have been distributed.

## **What Will They Need to do After I Die?**

After the usual funeral arrangements have been made and the services conducted, the affairs of the estate need to be completed. This involves the probating of the estate, the reading of the will if one exists, and the administration of its contents.

The personal representative is not only responsible for the distribution of the property, but also the filing of the final income tax return (Form 1040 or 1040A), the estate tax return (Form 706), and the estate income tax return (Form 1041). Under most circumstances, the estate tax return (Form 706) is filed only when the estate is worth at least \$2,000,000 for 2007. This amount will increase to \$3,500,000 for 2009; and no limit for 2010 and later.

The first step taken by the personal representative is to notify the Internal Revenue Service that he or she is acting in that capacity. This is done by filing a Notice Concerning Fiduciary Responsibility (Form 56). The personal representative will receive any correspondence from the IRS and have access to any of your prior tax information.

The next step is to file a Form SS-4 with the IRS to receive an identification number for the estate. The personal representative will need to notify the appropriate financial institutions of your death. The name on the accounts should be changed to that of the estate or the joint owner who has rights of survivorship. To change the account to that of the estate, the estate identification number will need to be given.

Generally, your final Form 1040 will report the income that you have earned prior to death. If you have a surviving spouse who has not remarried by the end of the year, he or she may want to file a joint return. This return will be due by April 15<sup>th</sup> of the year following the year of death.

Form 706, if required, must be filed within nine months of the date of death, unless an extension is obtained.

Form 1041 should be filed by the 15<sup>th</sup> of the 4<sup>th</sup> 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 12 months.

The estate income tax return will report the income that has been earned by the estate since the date of death. Income will be credited to the correct identification number if the financial institution is notified of your death as soon as possible. If you operated a business at the time of death, the estate may continue to operate that business. That income will be reported on the Form 1041. If any of your property is sold, such as your home, stocks, bonds, or personal property, that sale must be reported by the estate. The estate is able to deduct certain expenses that it pays. Property taxes, accounting and administrative fees, and other expenses of the distribution of the assets are allowed. Funeral expenses and medical expenses are deductions for Form 706; they cannot be claimed on Form 1041. If elected, the medical expenses can be claimed on the final Form 1040.

If the filing of any or all of the returns results in a tax, the personal representative is responsible to see that the tax is paid. This may mean that assets need to be sold to pay the tax. If assets have been distributed and no money remains to pay the tax, there personal representative and the beneficiaries will be responsible to pay the tax, up to the value of the assets distributed.

If the estate cannot be settled in one year, the Form 1041 must continue to be filed as long as there is gross income of \$600 or more in a year.

Your personal representative will probably work closely with your lawyer, tax preparer, financial advisor, and insurance agent to accomplish all the necessary obligations. It would be helpful for your personal representative to know these people ahead of time if possible.

The more information you provide your loved ones, the easier it will be to do what needs to be done.

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