Planning for Real Estate with Estate Planning

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One of the most important considerations you will need to make in regards to your real estate holdings and your estate includes tax planning. If not handled properly, your estate could end up getting hit with significant losses due to taxes after your demise. To protect yourself and your estate against this possibility, it’s important to plan for your real estate with estate planning.

First, it’s important to understand exactly what estate planning is and what it is not. Estate planning goes far beyond the simple drafting of a will. In essence, an estate is the total property, both real and personal, that is owned by an individual prior to distribution through a trust or a will. The act of planning your estate involves distribution of the real and personal property to your heirs, taking into consideration all the applicable laws, regulations and possible tax considerations.

The goal of estate planning is to preserve the most amount of your wealth possible for the intended beneficiaries; prior to your death. Due consideration of this must be entered into in order to avoid penalties related to certain Federal and State tax laws. Otherwise the property and wealth that you struggled to earn and obtain during your lifetime could easily be lost to the ravages of poor estate planning after your death instead of benefiting your heirs as you intended.

Wills and trusts are two instruments which are commonly used in estate planning. They have different purposes and very different outcomes, however. Wills are subject to probate court and if they are contested; the result can be a length and costly legal battle. In some cases, the majority of an estate has been whittled away the costs associated with a contested will. It is possible in some situations to avoid probate through the use of a trust and therefore avoid the risk of a long drawn out and expensive legal battle. A trust is used when property is held by one or more persons for the benefit of one or more other persons known as beneficiaries. The holder may be a separate trustee or a beneficiary. A trust is commonly used when there are minor children as heirs; although it could be used for other purposes. Other considerations to avoid possible negative tax impacts on you real estate include lifetime gifts and gifts made while you are still alive.

In some cases you may find that charitable gift contributions are a good way to go because you can take advantage of immediate tax savings as well as future tax savings. Under some circumstances you may be able to avoid the capital gains tax you would accrue if you sold a property as well as take an income tax charitable deduction for the property’s full market value when you use it to make an outright gift. Since the property will be removed from you estate, this will also provide future tax savings. Some individuals also choose to plan for their real estate by generating income through a charitable remainder in order to receive income either for life or during a specified term of years.

If you own real estate it is critical that you take care of it with carefully crafted estate planning early on. This can help you to anticipate economic changes without being hit with severe economic impacts later on.

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