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What will happen to your online accounts if you pass away?

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As more and more people live their lives online, the question of what happens to online assets and records after someone dies is becoming more important – and confusing.

Consider all the things that you might "own" on the Internet – thousands of photos and e-mails, Facebook and other social media accounts, music libraries, blogs, genealogy records, domain names, and much more.

Then consider how many financial accounts you have or manage online – including PayPal and other accounts with credit balances, as well as online accounts with detailed financial records, automatic bill-paying processes, etc.

If you haven't given any thought to what will become of these things – and who will manage them after you're gone – it's probably a good time to do so.

Increasingly, executors are being faced with very difficult questions about what to do with these online assets. How can they access them? To whom do they belong? What would the deceased loved one have wanted?

The whole issue is so new that there aren't many easy answers. In fact, only a handful of states – including Connecticut, Idaho, Indiana, Oklahoma and Rhode Island – have any laws at all governing executors' ability to handle online property.

So what should you do to make things easier for your heirs?

A good start is to put together a list of everything online that has value, sentimental or otherwise. Then decide what you want to happen to it.

Write the list down, so that if you were to pass away, your executor would know what assets exist. You might want to include passwords, and keep the list with your will. Be sure to update it from time to time. (However, it's never a good idea to put your passwords in the will itself – that's because wills can become public records, giving the whole world access to your passwords.)

Tell your executor what you want him or her to do regarding the assets. Do you want your social media accounts deleted, or

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Planning for estate taxes vs. planning for income taxes

Traditionally, the federal estate tax was extremely burdensome to wealthier individuals, and the bulk of estate planning involved finding ways to minimize this federal tax.

In the last few years, though, the federal estate tax rates and exemption amounts have changed and become much less of a problem. On the other hand, federal income taxes, capital gains taxes and other investment taxes have gone way up. And many *states* have increased their income, estate and inheritance taxes.

As a result, these days smart estate planning involves looking at *all* the different possible taxes that heirs might be facing, and figuring out how best to reduce the overall tax burden.

Here's one example: Let's say Linda owns some stock that she bought years ago for $30,000, and it's now worth $100,000. She thinks it will continue to increase in value, and at some point she wants it to go to Adam.

In the past, it might have made sense for Linda to give the stock to Adam immediately. That's because any further increase in the stock's value would belong to Adam, not Linda, and when Linda passed away, her heirs wouldn't have to pay federal estate tax on it (which could have been as high as 55%).

Today, however, it might make more sense for Linda to leave the stock to Adam in her will. Since federal estate tax rates are lower and the exemption amount is higher, Linda's estate might not have to pay much (if any) estate tax as a result of keeping the stock.

Plus, if Adam received the stock as a gift and sold it, he'd have to pay capital gains tax on the $70,000 increase in value while it belonged to Linda – at today's higher capital gains rates. But if he *inherited* the stock and sold it, his capital gains tax basis would be increased to the stock's value as of the date Linda died, and he would avoid the tax.

As a further wrinkle, though, depending on the states where Linda and Adam live, there might be state estate taxes and/or state inheritance taxes, which now often kick in at much lower thresholds, and there might also be state income and capital gains taxes to consider. The state tax issues could further complicate the decision.

As you can see, it's still necessary to do careful tax planning in order to leave as much as possible to your heirs – it's just that the nature of that tax planning has changed. If you wrote your will years ago when the tax laws were quite different, you might want to review your estate plan now to see if it still makes sense under current conditions.

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preserved as a memorial? Do you want your old e-mails destroyed, or copied for someone? Who should get photos, songs, and other materials?

If your executor isn't particularly tech-savvy, you might want to appoint a separate "digital executor" to handle your online assets.

Keep in mind that you might not have unlimited say over what happens. That's because, while you may think you "own" material that's online, your ability to control it is often limited by the "Terms of Service" agreement you clicked on when you first signed up with a service provider.

So while you might want to leave a library of thousands of songs on iTunes to someone, this might or might not be permitted by the iTunes service agreement.

If an account is important to you, you might want to contact the service provider and ask about its rules. For instance, Google now lets you choose what you want to happen to your e-mail if you pass away. But if you haven't made a choice within Google itself, and you just write something in your will, it's not clear that Google will abide by it.

In some cases, it might be possible to put a license agreement with a service provider into a trust, so that the "account" can continue after your death.

Another issue is what happens if an executor uses a password to access a financial account after someone dies. The executor *might* have a legal right to access and use the account. But he or she might also be considered to have wrongfully accessed the account by using someone else's password in order to impersonate them – even if the executor is doing something as innocent as paying ongoing bills.

It gets even more complicated if someone other than an executor – such as a family member – uses a deceased person's password. In general, it's better to contact the institution about the situation first, rather than simply logging in as someone else.

IRS allows many estates to save taxes – if they act quickly

A federal estate tax return doesn't have to be filed every time someone dies. In fact, a return typically doesn't have to be filed unless the estate is worth more than the federal estate tax exemption amount (which is currently $5,340,000). As a result, most estates never have to file one. However, a change in the law back in 2011 makes it advantageous to file a return if the deceased person is survived by a spouse – even if the estate is below the exemption amount and thus a return isn't legally required.

If you know someone whose spouse passed away and who didn't take advantage of this opportunity, the IRS is now giving them a second chance to file a return – but they must act by the end of this year in order to do so.

Here's the background: Generally, when a person dies, his or her estate can give an unlimited amount to a surviving spouse tax-free. After that, if the person's bequests (plus large lifetime gifts) total more than the exemption amount, then an estate tax is due.

Traditionally, the exemption amount applied separately to each spouse. So if a husband died first, his estate could use his exemption amount, and when his wife died later, she would get her own exemption amount. But if the husband left everything to his wife and no tax was due when he died, the husband's exemption amount would be "wasted."

Under a change in the law starting in 2011, if the first spouse to die doesn't use all of his or her exemption amount, the difference can be passed along to the other spouse.

So suppose a husband dies and doesn't use any of his $5,340,000 amount (because he leaves everything to his wife). When the wife dies, her exemption amount will be her own $5,340,000 *plus* the $5,340,000 that the husband didn't use. So instead of being able to leave $5,340,000 tax-free to her heirs, she can leave $10,680,000 tax-free – a potential savings of millions of dollars.

However, *this only works if the husband's estate filed a federal estate tax return* and elected to pass the exemption amount on to his wife. If the husband's estate didn't file a return (because it wasn't legally required), then all the potential tax savings are lost.

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This means that it's almost always a good idea to file an estate tax return for anyone who dies and is survived by a spouse.

Even if it seems highly unlikely that a surviving spouse will be worth more than $5,340,000 when he or she dies, it's still a good idea to file a return, because Congress could always change the exemption amount. In fact, not that long ago the exemption amount was less than $1 million.

Recently, the IRS announced that for anyone who died between the beginning of 2011 and the end of 2013 and whose estate didn't file a federal return, the estate can go back now and file one. Even though the return will technically be late, this will be allowed and there will be no penalty.

However, this window is open only until December 31, 2014. So if you know someone who is in this situation, be sure to encourage them to file a return.

Also, don't wait until December! Act as soon as possible, because it can take some time to file a return properly, and you don't want to be caught up in an end-of-the-year rush.

(Finally, you should be aware that there are further complexities involving the exemption amount if the surviving spouse decides to remarry. It's important to discuss this with an estate planner if this is a concern.)

If you know someone whose spouse died recently and who didn't file a federal estate tax return, they have until December 31 to potentially get a big tax savings.

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Thinking of retiring abroad? Know all the rules first

The idea of retiring on a beach in Central America or in a quaint village in Europe might seem idyllic. But before you think seriously about retiring in another country, be sure you know all the tax and estate planning rules.

A lot of people have been tripped up by these rules in the past. For instance:

➤ If you keep more than $10,000 in a foreign bank account, you'll have to file annual reports with the U.S. government. And be sure you can even open a local account – a law passed by Congress in 2010 requires foreign banks to file detailed disclosures on accounts held by Americans, and many smaller foreign banks won't even accept Americans as account holders anymore because they don't want to deal with the paperwork.

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➤ Some foreign countries don't allow non-citizens to directly own real estate. As a result, you'll have to own the real estate through a trust or a corporation, or have a local agent hold title while you contract with the agent to control the property. Owning real estate through a foreign trust or corporation can result in onerous tax and reporting requirements here in the U.S.

➤ Some people have the opposite problem: They want to own real estate through a trust or corporation for asset-protection purposes, but this isn't allowed by the foreign country.

➤ You might be subject to gift and estate taxes in both the U.S. and the foreign country. While you can sometimes get a credit on your U.S. federal taxes for any taxes you pay to a foreign country, this isn't always the case. And it can be even harder to get a credit if *state* estate taxes are owed.

➤ Inheritance rules are very different in some countries, and sometimes foreign law will dictate what happens to your property in spite of what you put in your will. For instance, even if your will says that your real estate will go to your spouse, it could end up going to your children instead – or even to a distant relative.

➤ If you make gifts to foreign charities, you generally can't deduct them on your U.S. taxes.

➤ Finally, Medicare typically won't cover your health expenses in a foreign country, so you'll have to make other arrangements. And if you eventually return to the U.S. and you didn't pay Medicare Part B premiums while you were away, you might be subject to a penalty if you sign up for Part B coverage.