

ESTIMATING YOUR FEDERAL ESTATE TAXES

CHAPTER NINE:

The goal of this chapter is to help the reader estimate whether his or her estate will be obligated to pay Federal Estate Taxes.

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Present federal law is designed so that smaller estates will not owe Federal Estate Taxes. To help you determine whether your estate will be required to pay a federal estate tax, I have provided the following brief exercise. The exercise is not intended to address all the refinements of the federal estate tax law, but I believe does contain elements necessary for planning and decision making.

Planning Exercise 17

To estimate Federal Estate Taxes, first total the items includable in your federal gross estate, then subtract from this total appropriate expenses, charitable contributions, deductions and credits. The following items are included in the gross estate:

- A. All property - real or personal, tangible or intangible in which you have an interest (the value included is proportionate to your interest).
- B. Value of property you transferred during life when:
 - 1) transfer of life insurance policies occurs within three years of death;
 - 2) income or use is retained by you for life or for a period not determined without reference to death;
 - 3) transfer is intended to take effect at death;
 - 4) the right to alter, amend, or revoke is retained;
 - 5) any of the rights in 2, 3, and 4 above are surrendered within three years of death.
- C. One-half value of property with right of survivorship held jointly between spouses.
- D. The entire value of jointly held property or investment or banking accounts between non-spouses unless survivor can prove he or she contributed to the purchase or the account.
- E. Life insurance proceeds if you have any incident of ownership or if proceeds are paid to executor or estate.
- F. Property over which you have been given a general power of appointment.
- G. Value of annuities, retirement accounts and plans.
- H. Employee death benefits.

The following appropriate items are deductible from your gross estate to determine your adjusted gross estate, or federal taxable estate:

- funeral expenses;
- administration expenses;
- legal debts against the estate;
- casualty losses not covered by insurance which may occur during administration;
- mortgages and liens that are unpaid;
- charitable contributions - for religious, educational, public institutions, government
- marital deduction for property transferred to surviving spouse (unlimited)

In estimating your federal taxable estate, you can only guess at some of the information. But it is only an estimate. An unexpected windfall or large settlement following an accidental death could cause a dramatic increase in the value of your estate or that of your spouse. Estate planning should consider this possibility.

Remember, if you are married, estate planning is always on both lives. Property transferred to the surviving spouse on the death of the first spouse, must be considered. You should estimate your federal taxable estate in two ways: (a) if you are the first to die, and (b) if you are the surviving spouse.

Estimating Your Federal Taxable Estate

The following is only an estimate, but it may help in planning and decision making. If married, estimate both estates and what changes may occur in the estate of the second to die. Refer to Appendix E and F to complete this exercise.

	Self (first to die)	Spouse (second to die)
1. Cash in checking and savings accounts	\$ _____	\$ _____
2. Face value of life insurance policies	\$ _____	\$ _____
3. Fair market value of your homes and other real estate	\$ _____	\$ _____
4. Fair market value of major personal assets - car, furniture, etc.	\$ _____	\$ _____
5. IRAs, 401(k)s, retirement plans, employer death benefits	\$ _____	\$ _____
6. Fair market value of investments	\$ _____	\$ _____
7. Other assets	\$ _____	\$ _____
8. Total - your gross estate	\$ _____	\$ _____
9. Less burial and final costs (perhaps 5 percent of gross estate)	\$ _____	\$ _____
10. Less unpaid debts, mortgages, taxes	\$ _____	\$ _____
11. Less applicable exemption amount (see Appendix U)		
12. Less charitable gifts	\$ _____	\$ _____
13. Deduct appropriate <u>unlimited</u> * marital deduction, if applicable	\$ _____	\$ _____
14. Net taxable estate	\$ _____	\$ _____
15. Estimated tax owed (see the "Federal Estate and Gift Tax Rates", Appendix U)	\$ _____	\$ _____
17. Estimated tax due	\$ _____	\$ _____

*The amount of this deduction is equal to the value of all property passing to the surviving spouse whether by Will, insurance or otherwise. There is no limitation on this amount.

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	Spouse (first to die)	Self (second to die)
1. Cash in checking and savings accounts	\$ _____	\$ _____
2. Face value of life insurance policies	\$ _____	\$ _____
3. Fair market value of your homes and other real estate	\$ _____	\$ _____
4. Fair market value of major personal assets - car, furniture, etc.	\$ _____	\$ _____
5. IRAs, 401(k)s, retirement plans, employer death benefits	\$ _____	\$ _____
6. Fair market value of investments	\$ _____	\$ _____
7. Other assets	\$ _____	\$ _____
8. Total - your gross estate	\$ _____	\$ _____
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