Financial Estate Planning

Since Congress passed the American Taxpayer Relief Act in 2012, very few Americans have been subject to federal estate taxes. As currently imposed, the tax will impact only .2 percent of decedents[1]. In 2017, the federal estate tax exemption is $5.49 million per person. Married couples can double this. “Portability” allows a surviving spouse to use all $10.98 million if the first spouse to die didn’t take advantage of his/her exemption. Several states impose an estate tax with an exemption amount less than the federal amount and do not offer portability (CT, DC, IL, MA, MD, MN, NJ, NY, OR, RI, VT and WA). Two states (DE and HI) have estate taxes that match the federal exemption and portability. Maine matches the federal exemption, but does not offer portability, so estate tax planning will be required for combined estates greater than $5.49 million to take advantage of both exemptions.
However, just because estate taxes aren’t likely to be an issue doesn’t mean financial estate planning is not necessary. There are multiple tax and non-tax reasons why planning is still important

Income taxation – Lifetime gifting of capital assets (real estate, stocks, and collectibles) may create tax problems for the gift recipient. When someone inherits property (except as noted below), the basis for determining capital gains tax is the fair market value at date of death. However, when you gift an asset during your lifetime, the recipient gets a “carry-over” basis. This means that when the recipient later sells the asset, capital gains tax based on the difference between the sale price and the donor’s basis will have to be paid. It is important to carefully analyze which assets can be transferred in the most tax advantageous way if gifting is part of your plan.

Qualified Plans and Non-Qualified Annuities – Unlike other assets, which are generally received by the heirs with no income tax consequences, the tax-deferred build-up inside qualified plans and non-qualified annuities passes through and is taxable to the beneficiaries at their current income tax rate. If the beneficiary is properly designated, the income can continue to be deferred or spread over the person’s life expectancy. For example, a spouse beneficiary can treat the plan as his/her own and defer the tax. Child beneficiaries have a couple of options that will allow them to spread the income over a number of years. However, if not done properly, the entire tax could be triggered immediately.
During retirement, it is important to consult with tax and legal experts to determine which assets are best to consume and which are best to leave to your heirs.

Naming Fiduciaries – Fiduciaries are the people you name to handle your financial matters if you are unable due to death or disability. While alive, this would be your attorney-in-fact under your power of attorney, and the trustee(s) of any trusts that are in force. After death, this would include the executor of your estate and the trustee(s) of any trust in existence or that are created through your will (testamentary trust). Your fiduciaries have a responsibility to act in the best interest of the people who benefit from the assets held. Failure to do so is a breach of the fiduciary duty and could subject the fiduciary to liability. Naming fiduciaries should be done carefully. Many family members are not equipped, nor do they want the responsibility, so it is often best to choose a professional.

We strongly recommend that you address these concerns with an attorney who specializes in estate planning.

[1] Joint Committee on Taxation, “History, Present Law, and Analysis of the Federal Wealth Transfer Tax System,” March 16, 2015, https://www.jct.gov/publications.html?func=startdown&id=4744.

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