



## DESCHENE: Estate taxes might apply to you

Thanks to state laws, you don't have to be the richest to pay

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BY ROBERT DESCHENE | 0 comments

During tax season, I'm reminded of Ben Franklin's old saw: Nothing is certain in life but death and taxes.

As we approach the dreaded April 15, many of us are focused on our income tax returns. Still, many people also wonder or worry about whether, upon their deaths, estate tax will be due.

When we hear the words "estate tax," we might think they can't possibly apply to us - only to very wealthy people, like Warren Buffett.

Not necessarily.

The government imposes a tax on the transfer of your wealth at death. Estate tax is the amount that your estate will owe the government, and is calculated by the value of all the property you owned at your death. Right now, the federal government's estate tax does not apply unless you own at least \$5.34 million at death. Relatively few of us have to worry about this.

The bad news is that Massachusetts is one of the states that imposes its own, separate estate tax if you die owning \$1 million or more. The graduated tax rate can run as high as 16 percent, which can be a significant sum that you will not be leaving to your family. Massachusetts seniors with taxable estates often migrate to Florida, not only for the warmer weather, but because Florida has no state estate tax.

Some people ignore the issue of estate tax because they don't think of themselves as a millionaire. However, remember that this tax is imposed on your taxable estate, which includes your home and/or vacation home, death benefits payable on any life insurance policies you own (i.e., not the cash surrender value), and any balances paid out of your retirement accounts, like IRA and 401k accounts, when you die. If you total up these assets, or project their future value, you may easily exceed the \$1 million threshold for paying estate tax, even though we don't feel like millionaires.

So do the math.

If you think you exceed, or will exceed, the threshold, there are ways to avoid or minimize paying estate tax, but you have to plan ahead. You can't just give away large assets to your family during your lifetime so they won't be included in your taxable estate.

However, the government will allow you to make many "small" gifts (\$14,000, or \$28,000 for spouses) every year, and you can give that amount to as many people as you want, even to non-family members. You also can make direct payments to a college or medical provider to pay for someone's tuition or medical expenses, even if the gifts exceed \$14,000. Over time, this repeated annual gifting can reduce your taxable estate dramatically, while still using your property to help your family.

Married couples can protect up to \$2 million from estate tax, provided they use the right estate plan and not simple wills. Although you can leave any amount to your spouse tax-free on your death, each spouse has their own \$1 million tax "coupon," which can shelter that amount of assets from estate tax. If the first spouse to die doesn't use their "coupon," it's wasted. The surviving spouse will own \$2 million when he or she dies, but will have only their own \$1 million "coupon" left to use.

To avoid this result, an estate plan can provide that the coupon of the first spouse to die will be used to shelter \$1

million of their assets, which will then be placed tax-free into a bypass trust. The surviving spouse can still use the money in the bypass trust during their lifetime, but later, the surviving spouse can use their second "coupon" on the remaining \$1 million of assets. Result: no estate tax paid on \$2 million.

Finally, your ownership of life insurance policies that will pay out large death benefits to your family may expose you to estate tax. Who owns the policy is usually not that important. If you create an irrevocable life insurance trust to act as owner of these policies, your family will still get the proceeds without your estate paying estate tax.

Although death and taxes may be certain, you can do something proactive to avoid death taxes.

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