GIFT, ESTATE & INHERITANCE TAXES – 2016

Estate and Gift Taxes Exclusion Threshold

For 2016, the estate and gift tax exemption is $5.45 million per individual, up from $5.43 million in 2015. That means an individual can leave $5.45 million to heirs and pay no federal estate or gift tax. The annual gift exclusion remains the same at $14,000. The federal estate and gift tax exemptions rise with inflation.

Gift Tax

If a taxpayer has been prosperous enough during their lifetime, their heirs may be subject to federal gift or estate tax rules. After death, their money and property, known as the estate, may also be subject to federal estate tax. However, one can give money away during one's lifetime or leave certain amounts to the heirs that are exempt from taxation.

Save on Gift Taxes

A taxpayer can give monetary sums to each person and to as many individuals as they wish without initiating the gift tax up to the exclusion amount of $14,000. In addition to the annual exclusion amounts, taxpayers also can give to the following without forcing the gift tax:

- Donations - charitable gifts.
- Gifts to a spouse.
- Gifts to a political organization for its use.
- Gifts of educational expenses are unlimited (must be directly paid to the educational institution for tuition only. Books, supplies and living expenses do not qualify.)
- Gifts of medical expenses are unlimited (also must be paid directly to the medical institute)

Unified Credit – Estate and Gift Taxes

In estate planning, taxpayers should consider the *unified credit*. The federal gift tax and estate tax are combined into one unified tax scheme. This is the credit for the percentage of estate tax due on taxable estates. For example, if the taxpayer exceeds the annual gift tax exclusion amount in any year, they can either pay the tax on the excess or utilize the unified credit to avoid paying the tax. The unified credit allows the taxpayer to give away $5 million (plus the annual inflation adjustments) during their lifetime without having to pay gift tax. By using the unified credit during their life, it would decrease the sum accessible to counterbalance the estate tax upon the taxpayer's death. If, however, a gift tax was paid, such taxed gifts are added back to the estate, and the estate tax is recalculated, with the gift taxes previously paid credited against any final estate tax due.

Inheritance Tax

Inheritance taxes are paid on inheritance received from a loved one after their death for money or property. However, inheritance taxes are a state tax that is paid when a taxpayer receives money or property from the estate of a deceased person. The beneficiary of the property is responsible for paying the tax, not the estate, contrasting the federal estate tax. However, as of 2016, only six states levy an inheritance tax. Many beneficiaries could also be exempted from the tax.

States with An Inheritance Tax

The federal government does not have an inheritance tax. The six states that enforce an inheritance tax include Iowa, Kentucky, Maryland, Nebraska, New Jersey and Pennsylvania. The inheritance tax rates vary from 1 percent up to 20 percent of the value of property and cash that is inherited. Inheritance tax exemptions can vary depending on the relationship of the beneficiary.

For further questions, please contact us at info@mirtaxes.com.