**MFS Heritage Planning®**

Helping Yourself. Helping Your Parents. Helping Your Children.®

Ekua O. Anyanful, MBA, CFP®
EA Wealth Management, LLC
4724 Poplar Ridge Drive, Fort Worth, TX 76123
Office: 1.888.539.4470
Website: www.eawealthmangement.com

**ESTATE PLANNING**

# UNDERSTANDING ESTATE AND INHERITANCE TAXES

Developing a plan for the disposition of assets throughout your lifetime and after death is a key tenet of estate planning. Thoughtful estate planning may minimize your estate, inheritance and generation-skipping transfer taxes.

## Federal estate tax

The federal estate tax is a transfer tax imposed on the value of property you own at the time of your death. When applicable, a federal estate tax is levied on an entire estate before it is distributed to beneficiaries, and any tax owed is paid out of the estate's funds. An estate tax return must be filed with the IRS within nine months after death for each decedent whose gross estate exceeds the applicable exemption amount.

Under current tax law, there is a $5.45 million limit on the amount individuals can leave their heirs estate-tax free.

## State estate and inheritance taxes

Some states have their own estate tax, which, like the federal tax, is a transfer tax on property you own at the time of your death. If you own real property in a state other than your state of residence, an additional tax may be imposed by that state.

Certain states also impose a separate tax on beneficiaries, known as an inheritance tax. These taxes are calculated for each beneficiary according to the value of the inherited assets. However, spouses, children and grandchildren may be taxed at a lower rate than other heirs. A friend, for example, may have to pay taxes of 20% of the amount inherited, while a grandchild's tax rate may be only 2%. You should be aware of any estate tax and inheritance tax exemptions your state offers.

### By the numbers

- **$5.45 million** is the maximum amount individuals can leave their heirs estate-tax free. For 2015, the amount was **$5.43 million**.[1]
- The top estate tax rate is **40%**.[1]

[1] Source: irs.gov.

### Key points

**How can you take control of, and possibly eliminate, estate taxes?**

- Start planning with your legal advisors as soon as possible.
- Consult with your estate planning professionals. They can help you fully understand estate and inheritance taxes — and take full advantage of any planning opportunities.

**A sound estate plan will help**

- reduce your tax bill
- ensure that your wealth is transferred according to your wishes

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.



continued on page 2

continued from page 1

### Generation-skipping transfer (GST) tax

The generation-skipping transfer (GST) tax is another federal tax that is generally applied to property and paid directly by the estate. The tax is applied to property that is left to a beneficiary who is at least two generations younger than the property owner. It is designed to ensure that property does not skip a generation without a transfer tax being assessed. The beneficiary is known as the skip person, and the tax rate applicable to generation-skipping distributions is the highest marginal estate tax rate. A generation-skipping transfer takes one of three forms:

- Direct skip: a transfer to a skip person who is also subject to estate or gift tax
- Taxable termination: trust property that is held for, or distributed to, a skip person after an interest in the trust has terminated
- Taxable distribution: any distribution from a trust that is not a taxable termination or direct skip

Transfers that are not subject to gift tax because of the $14,000 annual exclusion or the unlimited exclusions for direct payment of medical and tuition expenses are not subject to GST tax.

### How estate taxes are assessed

The following is a general overview of how federal estate taxes are calculated. It is important to remember, however, that every estate is different and the laws governing federal estate taxes are complex. Make sure to consult with your attorney, tax advisor or estate planning professional about your specific estate planning needs and possible tax liability.

### Determining gross estate value

The first step in computing the estate tax is to figure out the value of the gross estate. The gross estate may include

- all property you owned at the time of death
- certain transfers made during your lifetime if you retained an interest in the property
- the value of an annuity receivable by any beneficiary as your survivor
- half the value of all property held in joint tenancy (with rights of survivorship and not as tenants in common) with a spouse
- the value of all property over which you had a general power of appointment at the time of death
- the value of certain life insurance proceeds
- the value of certain types of transfers and releases if occurring within three years before death

Keep in mind that 529 prepaid tuition and college savings plan assets are not generally considered part of the donor's estate. The only exception occurs if you are spreading a gift over five years for gift tax purposes. If you die within that five-year period, the gifts for the years up to and including the year of your death are removed from your estate and the subsequent year's gifts are included in your estate. (For more information, ask your financial advisor for the MFS Heritage Planning® infosheet, "529 College Planning.")

Source: finaid.org.

In general, the value of your estate is the fair market value of all property as of the time of death. However, if the executor elects, the property may be valued on an alternate valuation date, which is six months after death. This alternate date becomes the date for valuation of all property in the estate and must be applied to all assets on an all-or-nothing basis.

### Determining taxable estate value

Once the gross estate value has been determined, the next step is to find the taxable estate value.

Generally, the taxable estate value will be the gross estate value minus

- estate administration expenses (including final expenses)
- certain types of uncompensated losses
- indebtedness
- bequests to surviving spouse
- charitable bequests

continued on page 3

continued from page 2

### Determining actual estate tax

Once the value of the taxable estate is determined, a preliminary or tentative estate tax is calculated using graduated tax rates. At this point the applicable estate tax credit (and in certain circumstances other credits) is subtracted from the preliminary estate tax. The result is the actual tax due.

The maximum estate tax credit in 2016 is equal to the tax liability on a taxable estate of $5.45 million, which is free of federal estate tax, but not necessarily state estate tax. Therefore, subtracting the applicable 2016 tax credit from the estate tax on an estate of $5.45 million or less will result in zero estate tax liability. In other words, taxable estates of up to $5.45 million can be left to beneficiaries estate-tax free, and usually only taxable estates worth over $5.45 million would owe estate tax if paid to nonspouse beneficiaries.

### Planning ahead

After a person dies, the disposition of his or her estate — for good or bad — is generally fixed. Although some tax-saving options may still be available to your beneficiaries, planning ahead gives you the greatest opportunity to make informed choices about the disposition and preservation of your assets. In order to create an estate plan that fits your specific circumstances and preferences, you may need to consider not only taxes but also state and federal laws regarding wills, trusts, property ownership (including community property rules), asset transfers and probate administration. Contact your financial advisor, attorney or tax advisor for help with putting the most appropriate plans in place.

**Contact your financial advisor for more information, or visit mfs.com.**



MFS Fund Distributors, Inc., Boston, MA

HP-EPTAXES-FLY-1/16
15005.9