ESTATE TAXES
by J. Ray Deal, Attorney at Law

Now that April 15th has come and gone and the income taxes are behind us (well, some of us), let's clear up some issues about estate taxes. I get a lot of questions about this and for most of us, unless we win the lottery, estate taxes are a non-issue.

Here are the numbers for 2019: Federal Estate and Gift Exemption Amount - $11.4 million per person ($22.8 million for a couple). That's it! North Carolina repealed the state's estate tax effective January 1, 2013 and they repealed the inheritance tax effective January 1, 1999. The federal annual gift exclusion amount is $15,000 per person.

Okay, so what does all of this mean? Well, if you die this year and the total value of your taxable estate is less than $11.4 million (yeah, I wish I were closer to that number too!) then there is no tax on your estate. For a couple, so long as they file the first estate tax forms properly, they can pass $22.8 million tax free. Now the term "estate" can mean different things depending on how you are using the term but when we say "taxable estate" that means the value of all of your assets including real estate, life insurance, retirement accounts, bank accounts, business interests plus any property that actually passes through your probate estate.

Remember though I am talking about estate taxes. Those inherited retirement accounts and IRA's are still subject to income taxes so you don't avoid the tax man altogether. Also, if the decedent owned annuities those special insurance products accumulate interest tax free until the money is taken out so there will be income tax consequences on those products as well. Most all life insurance proceeds are not taxable if paid at death.

The $15,000 annual gift exclusion amount is confusing to some. Basically, anyone can stand out on the street and hand out gifts of up to $15,000 to each person walking by and it is not reportable by the giver or the recipient. The purpose of this is to allow those folks who have a taxable estate to reduce it by giving these gifts that are not reportable. If the gifts exceed $15,000 per person then it is reportable and the reportable gifts, which are filed on the federal gift and estate tax form, are added up and reduce the estate exclusion amount when the person dies. If you do not have a taxable estate anyway then the "reportable gifts" are still not taxable.

Just to add a little more confusion to this I must worn you that these gifts that are excluded by the IRS for gift tax purposes are countable gifts for someone going in a nursing home and applying for Medicaid. That's another subject but I know there is a lot of confusion about this and since I do Medicaid planning I wanted to point this out.

The good news - no estate tax for most of us so happy May!