WHAT DO I NEED TO KNOW ABOUT

Estate Taxes?

THE BAILEY LAW FIRM
A Professional Corporation

WHAT IS THE ESTATE TAX?

The **Estate, or "Death" Tax**, is a U.S. or federal tax collected at your death on ALL of your assets. For Estate Tax purposes, "assets" not only include your house, your bank accounts and your stocks and bonds, but also include your life insurance death benefits and your retirement accounts.

WHAT ARE THE ESTATE TAX RATES?

Estate Tax Rates are the percentages at which your assets are taxed at your death. Historically, the rates have ranged from a low of 35 percent to a high of 55 percent, depending upon the year of your death. (See Chart)

ARE ANY OF MY ASSETS EXEMPT?

The IRS gives each person an amount which is exempt from Estate Taxes, sometimes called the Credit Shelter Amount, the Exemption Equivalent Amount or the Exemption Amount. The Exemption Amount is the amount you can transfer to the next generation with NO Estate Tax. Like the Estate Tax Rates, the Exemption Amount depends upon the year of your death. (See Chart)

WHO PAYS THE ESTATE TAX?

Estate Taxes are paid from your assets at your death. After all debts and Estate Taxes are paid, your remaining assets are then distributed to your heirs or beneficiaries.

WHEN ARE ESTATE TAXES DUE?

Estate Taxes are due and payable nine (9) months after the date of your death.

HAS THE ESTATE TAX BEEN REPEALED?

No. The Estate Tax was repealed for one year only, 2010, and then reinstated.

Year	Exemption Amount	Top Estate Tax Rate
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	$5,000,000 or $0	35% or 0%
2011	$5,000,000	35%
2012	$5,120,000	35%
2013	$5,250,000	40%
2014	$5,340,000	40%
2015	$5,430,000	40%
2016	$5,450,000	40%
2017	$5,490,000	40%
2018	$11,180,000	40%
2019	$11,400,000	40%
2020	$11,580,000	40%
2021	$11,700,000	40%

* The Exemption Amount is indexed each year for inflation.

WHAT IF MY ESTATE CANNOT PAY THE ESTATE TAX?

If your estate is comprised of illiquid assets (assets you cannot sell quickly), such as real estate, a family farm, or a closely held business, and if your estate does not have sufficient liquid assets or cash to pay the Estate Taxes when due, then your estate will be forced to: (1) borrow the money to pay the tax; or (2) sell the family farm or business to pay the tax.

HOW CAN I REDUCE MY ESTATE TAXES?

In addition to the Exemption Amount, several Estate Tax reduction strategies may be used to decrease your estate taxes.

EXEMPTION AMOUNT & PORTABILITY

You can "double" your Exemption Amount IF: (a) you are married; (b) you and your spouse "equalize" or separate your assets so that some assets are owned in the husband's name and some assets are owned in the wife's name; and (c) you and your spouse sign estate-tax-savings Wills or Living Trusts. If you fail to "double" your Exemption Amount by planning in advance, then the surviving spouse can make a portability election upon the death of the first spouse in order to preserve the exemption of the deceased spouse, thereby transferring the Exemption Amount of the deceased spouse to the surviving spouse.

LIFETIME GIFTING

You can give your assets to the next generation while you are alive, rather than at death. Lifetime gifts decrease the value of your estate at death, and therefore reduce Estate Taxes.

Lifetime gifts are subject to Gift Taxes equal to the Estate Tax Rates. However, you can give up to $11,700,000 (2021) during your lifetime with no Gift Taxes, and up to $15,000 (2021) per year, per donor, per donee, with no Gift Taxes.

IRREVOCABLE LIFE INSURANCE TRUSTS

You can purchase life insurance to pay your Estate Taxes at your death. Life insurance is taxed as part of your estate for Estate Tax purposes. So, if you buy life insurance in your own name, then your estate will owe Estate Taxes on the life insurance when you die. Conversely, if you buy life insurance in an Irrevocable Life Insurance Trust or ILIT, then the life insurance is Estate Tax free.

VALUATION DISCOUNTS - FAMILY LIMITED PARTNERSHIPS

You can contribute certain assets to a Family Limited Partnership, or FLP. An FLP is comprised of general partners and limited partners. The partners own units or percentage interests in the FLP, and the FLP owns the assets. The FLP can save Estate Taxes by two methods.

First, the FLP places certain restrictions on the transfer or sale of the units. These restrictions result in a discount in the value of the units for Estate Tax purposes, which is called a "lack of marketability" discount. Second, a partner may own less than a controlling interest in the FLP. This non-controlling interest results in a discount in the value of the units for Estate Tax purposes, which is called a "minority interest" discount.

CHARITABLE GIVING

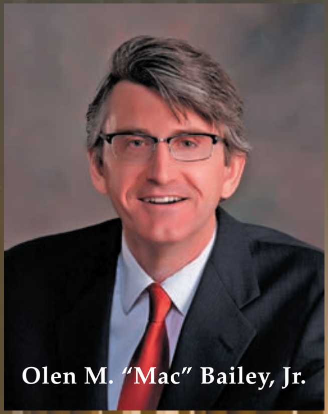
You can gift your assets to charity. Charitable gifts are deductible for Estate Tax purposes. You can also split the charitable gift between your family and a charity to save on Estate Taxes. A split charitable gift divides the income and the principal between the parties. Examples of split charitable gifts include charitable gift annuities, charitable remainder trusts (CRTs), and charitable lead trusts (CLTs). With a CRT, the charity receives the income for a period of time, and then your family receives the principal or remainder. With a CLT, you or your family receive the income for a period of time, and then the charity receives the remaining principal.

WHO SHOULD ASSIST ME WITH ESTATE TAX PLANNING?

An estate planning attorney with experience in planning for taxable estates should assist you with estate tax planning so that the strategies utilized will be valid under the applicable federal and state laws, rules and regulations.

THE BAILEY LAW FIRM

The Bailey Law Firm concentrates its legal practice in the areas of wills and trusts, estate taxation and planning, asset protection planning, charitable gift planning, business succession planning, elder law, and estate administration and probate. The Bailey Law Firm has attorneys licensed to practice law in the states of Mississippi and Tennessee.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The Bailey Law Firm was founded by Olen M. “Mac” Bailey, Jr. Mr. Bailey received his Master of Laws (LL.M.) degree in Elder Law with honors from Stetson University College of Law, his J.D. from Vanderbilt University School of Law, and his B.A. from Millsaps College. Mr. Bailey is an accredited attorney with the Department of Veterans Affairs.

ESTATE PLANNING

- Wills
- Living Trusts
- Powers of Attorney
- Special Needs Trusts

ELDER LAW

- Medicaid Eligibility Strategies
- VA Aid & Attendance
- Qualified Income or “Miller” Trusts
- Conservatorships

PROBATE

- Will Contests
- Estate Administration
- Trust Administration
- Estate Disputes

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