Estate Tax

THE RULES AND THE EXEMPTIONS
The Basic Rules of Estate Tax

The goal with estate taxes is to try to pay the minimum tax by the use of deductions, exemptions, and credits. The first rule is that an unlimited amount can be passed to a surviving spouse without one dime of death tax being paid. There will probably be a whopper of a death tax paid upon the second death but there typically is no tax upon the death of the first spouse. The second rule is that one can pass assets to those who are not the spouse of the decedent, without a tax, an amount equal to the exemption equivalent. This does not mean that one can pass the exemption equivalent to each of the non-spouse beneficiaries rather, in the aggregate, this is the amount that can be passed without a tax. The exemption equivalent went up in stages between year 2001 and year 2009 until it reached $3,500,000. It was scheduled to lapse in 2010 and return to $1,000,000 in 2011. At the end of calendar year 2010, Congress acted to set the exemption amount at $5,000,000 for two more years. In 2013 Congress established a "permanent" $5,000,000 exemption with an annual inflation adjustment. The exemption equivalent for each year is listed below.

In advanced estate planning cases, estate tax reduction usually revolves around three major approaches: gifting through the use of discounting, life insurance, or charitable devices. Any of these methods are highly technical and beyond the scope of this article.

Year	Estate Tax Exemption Equivalent (see below for definition)
1997	$600,000
1998	625,000
1999	650,000
2000	675,000

2001	675,000
2002	1,000,000
2004	1,500,000
2006	2,000,000
2009	3,500,000
2010	Repealed
2011	5,000,000 tied to cost of living index
2012	5,120,000
2013	5,250,000
2014	5,340,000
2015	5,430,000
2016	5,450,000
2017	5,490,000

Estate Tax Exemption Equivalent:

The amount which you can leave at death without incurring an estate tax (death tax). The excess over this amount, not the total, is subject to estate tax. So if you die with $700,000 of net worth in 1998, the exemption equivalent would be $625,000 and the excess of $75,000 would be subject to tax. The tax at this level of wealth would be 37% for a tax of $27,750.