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We have a federal estate tax that can apply to people who reside in all 50 states. There is an unlimited marital deduction that you can use to transfer assets to your spouse tax-free, but transfers to others are potentially subject to this tax.

You can transfer a certain amount before the estate tax would be applied. This is called the federal estate tax exclusion, and for the rest of 2015, it stands at $5.43 million. It could be a bit larger next year if an inflation adjustment is applied.

The maximum rate of the federal estate tax is 40 percent at the present time, so you are looking at a rather large bite if your estate is going to be exposed to the tax.
In addition to the federal estate tax, there are a total of 15 states in the union that impose state-level estate taxes. The state-level exclusions are typically lower than the federal exclusion. As a result, you could be exposed to a state-level estate tax even if you are exempt from the federal tax.

We practice in North Dakota, and our state is not one of these 15 states. However, if you own property in a state with an estate tax of its own, the tax in that state could apply when it is being transferred after you pass away.

When you are inventorying your assets to see if you are exposed to the estate tax, you have to include the value of everything that you own, including real property. Here in our area, there are farmers and ranchers who own large tracts of land that may have appreciated considerably over a number of generations. This is something to take into account when you are evaluating your position.
INHERITANCE TAX

An estate tax is levied on the entire taxable portion of the estate in question before it is transferred to the heirs. For example, using the $5.43 million figure that we have in place in 2015, let’s say that your estate is valued at $15.43 million. The first $5.43 million could be transferred tax-free, but the remaining $10 million would be subject to the estate tax and its 40 percent maximum rate.

Things are different with an inheritance tax. This type of tax is levied on transfers to each individual inheritor who is not exempt. As a result, there could be multiple impositions of an inheritance tax when one estate is being administered.

There is no federal inheritance tax, but there are six states in the union that impose state-level inheritance taxes. Once again, we are in the clear here in North Dakota, because our state is not one of these six states. For your information, the six states are New Jersey, Maryland, Iowa, Kentucky, Pennsylvania, and Nebraska.
Since we are looking at taxes that can come into play when assets are changing hands, we should touch upon a commonly asked question. Many people wonder if you have to report an inheritance as income when you are filing your annual income tax return. In fact, an inheritance is not considered to be taxable income.
**SUMMARY**

Estate taxes are death taxes that are levied on the entire taxable portion of an estate. There is a federal estate tax that everyone should be aware of, and there are 15 states in the union that impose state-level estate taxes.

An inheritance tax is a tax that is imposed on transfers to each nonexempt inheritor. There is no federal inheritance tax, but a handful of states have state-level inheritance taxes.

There are tax efficiency strategies that can be implemented if your estate is going to be exposed to taxation. The ideal way to proceed will depend upon the case in question.

You should certainly discuss things in detail with a licensed estate planning attorney if the value of your estate exceeds the amount of the estate tax exclusion. Your attorney will gain an understanding of your position and explain your options to you.

Many attorneys will offer no obligation initial case evaluations, so you can start to develop the relationship without making any long-term commitments.
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About the Author
Raymond J. German

As an attorney in Minnesota and North Dakota, Raymond J. German provides a wide range of estate planning services to his clients, with a primary focus on helping them provide for the security of their loved ones, reduce estate taxes and avoid or at least minimize the costs and delays of probate, all with a well-crafted estate plan. Mr. German defines the mission statement for German Law Group, PC, as "Helping one family at a time pass on values, beliefs and finances, which can be shared for generations to come." Mr. German is well aware of the growing importance of estate planning and dedicates himself to informing the public of the need for careful attention to their specific situations. He is a frequent speaker on a variety of estate planning topics, regularly presenting educational seminars for the public as well as private groups.

Raymond J. German approaches each challenge with not just solid expertise, but also remarkable enthusiasm and vigor. By constantly seeking simpler, better, and more effective ways of doing things, he continues to make a real difference in the lives of families and on the way estate planning is practiced by attorneys around the country.

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