



Estate Planning

Depletion of an Estate by Taxes and Costs

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DEPLETION OF AN ESTATE BY TAXES AND COSTS

The Background...

- ◆ At death, an individual's estate faces inevitable depletion from final expenses, taxes, and costs associated with disposing of the estate—especially when the individual made no effort to minimize these costs.
- ◆ One set of costs is triggered by death itself—unreimbursed end-of-life medical expenses, funeral and burial costs, and unpaid debts that remain after death.
- ◆ Expenses are also incurred during the orderly administration of an estate. Typically referred to as probate fees, these expenses potentially include attorney's fees, executor's fees, appraiser's fees, court costs and other probate expenses.
- ◆ For very large estates, the federal estate tax can be the most burdensome expense. A few states also impose their own estate and/or inheritance taxes.

A Closer Look...

- ◆ In 2017, estates that exceed the federal estate tax applicable exclusion of \$5.49 million will be subject to tax. The estate tax rate in 2017 is 40%.
- ◆ It helps to see how the combination of the federal estate tax and estate settlement costs can reduce an estate intended for heirs. The example below assumes no taxable gifts during life and a gross estate valued at \$9,000,000..

Gross estate	\$9,000,000
Less:	
Final expenses & debts	- 360,000
Probate costs	- 360,000
State estate tax	- 540,000
Federal estate tax (2017)	<u>- 900,000</u>
Balance left for non-spouse heirs	\$6,840,000

- ◆ In this case, about 25% of the original estate is lost before it can go to the heirs. These numbers are realistic estimates and may actually be more or less for an estate.



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The Bottom Line...

Estate owners can take action to ease the financial problems associated with death. Minimizing estate shrinkage is the purpose of an estate review with a qualified advisor. Reaching decisions about property ownership, transferring assets, establishing trusts and making other arrangements can fulfill the individual's wishes and, often most important, mitigate the effects of taxation.



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Summary

WHAT IS ESTATE DEPLETION?

The estates people leave for heirs at death can be depleted by taxes and other expenses that become due at the time of death. Without proper preparation, these costs can take a significant bite out of what's left to pass on to the heirs.

WHAT ARE SOME OF THE COSTS?

Some costs are associated directly with the individual's death, including end-of-life medical expenses, funeral expenses and debts remaining unpaid at the time of death. Other costs are the result of administering the deceased person's estate. These can include attorney's fees, executor's fees, appraiser's fees, court costs and probate expenses.

WHAT ABOUT TAXES?

Estates that exceed a certain dollar limit specified in the tax code become subject to the federal estate tax. For larger estates, this tax can be extremely burdensome. In 2017, estates that exceed the federal estate tax applicable exclusion of \$5.49 million are subject to tax at a top rate of 40%.

Some states also impose their own estate and/or inheritance taxes.

WHY IS ALL OF THIS IMPORTANT?

For people whose estates are subject to the estate tax, proper planning can diminish the effects of taxation. Without a good strategy, a huge portion of an estate can be consumed by taxes and other costs.



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Here's an example of how one person's \$9,000,000 estate could be reduced.

Gross estate	\$9,000,000
Less: Final expenses & debts	- 360,000
Probate costs	- 360,000
State estate tax	- 540,000
Federal estate tax (2017)	<u>- 900,000</u>
Balance left for non-spouse heirs	\$6,840,000

In this example, about 25% of the original estate is lost before distributions to the non-spouse heirs. These numbers are estimates—the actual costs could be more or less.

WHAT'S THE SOLUTION?

Estate owners can take action to ease the financial problems associated with death. Minimizing estate shrinkage is the purpose of an estate review with a qualified advisor. Reaching decisions about property ownership, transferring assets, establishing trusts and making other arrangements can fulfill the individual's wishes and, perhaps most importantly, mitigate the effects of taxation.



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