

Abstract: Every taxpayer with a high degree of wealth shouldn't let estate tax liability or gift tax liability take their heirs by surprise. This article provides the latest info on estate and gift tax exclusions and exemptions, and explains how to help forecast one's estate tax exposure.

Assessing your exposure to the estate tax and gift tax

When Congress was debating tax law reform last year, there was talk of repealing the federal estate and gift taxes. As it turned out, rumors of their demise were highly exaggerated. Both still exist and every taxpayer with a high degree of wealth shouldn't let either take their heirs by surprise.

Exclusions and exemptions

For 2018, the lifetime gift and estate tax exemption is \$11.18 million per taxpayer. (The exemption is annually indexed for inflation.) If your estate doesn't exceed your available exemption at your death, no federal estate tax will be due.

Any gift tax exemption you use during life does reduce the amount of estate tax exemption available at your death. But not every gift you make will use up part of your lifetime exemption. For example:

- Gifts to your U.S. citizen spouse are tax-free under the marital deduction, as are transfers at death (bequests).
- Gifts and bequests to qualified charities aren't subject to gift and estate taxes.
- Payments of another person's health care or tuition expenses aren't subject to gift tax if paid directly to the provider.
- Each year you can make gifts up to the annual exclusion amount (\$15,000 per recipient for 2018) tax-free without using up any of your lifetime exemption.

It's important to be aware of these exceptions as you pass along wealth to your loved ones.

A simple projection

Here's a simplified way to help project your estate tax exposure. Take the value of your estate, net of any debts. Also subtract any assets that will pass to charity on your death.

Then, if you're married and your spouse is a U.S. citizen, subtract any assets you'll pass to him or her. (But keep in mind that there could be estate tax exposure on your surviving spouse's death, depending on the size of his or her estate.) The net number represents your taxable estate.

You can then apply the exemption amount you expect to have available at death. Remember, any gift tax exemption amount you use during your life must be subtracted. But if your spouse predeceases you, then his or her unused estate tax exemption, if any, may be added to yours (provided the applicable requirements are met).

If your taxable estate is equal to or less than your available estate tax exemption, no federal estate tax will be due at your death. But if your taxable estate exceeds this amount, the excess will be subject to federal estate tax.

Be aware that many states impose estate tax at a lower threshold than the federal government does. So, you could have state estate tax exposure even if you don't need to worry about federal estate tax.

Strategies to consider

If you're not sure whether you're at risk for the estate tax, or if you'd like to learn about gift and estate planning strategies to reduce your potential liability, please contact us.

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