

Use Generosity to Fight Inheritance Taxes

Written by Rob Copeland

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Many of my clients are privileged to have net worths of between \$1 million and \$3 million. And they're fortunate as well in that they don't meet the \$5 million threshold for federal estate taxes.

But those that live in Tennessee need to be careful. The Tennessee Inheritance Tax applies to those with estates worth more than \$1 million. And the tax can be significant—eating up as much as 9.5% of the value of a decedent's estate.

A good way to limit the impact of the state tax is known as gifting of assets. Wealthy individuals can give away as much as \$13,000 per year to one or more individuals. This gradually lowers the value of the estate, and thus it lowers the tax hit after the owner of the estate dies.

Here's an example of how you can use gifting to your advantage. One of my clients is an octogenarian who has \$1.5 million in assets. After selling his business assets for a large profit a few years ago, he started a gifting program, giving away \$26,000 annually to his son and daughter-in-law.

Recently, this gentleman's health has declined, even as his portfolio has performed so well that it's kept his assets well above the Tennessee Inheritance Tax threshold. As a result, this client has decided to increase his gifting to include his grandchildren; he now gives \$52,000 to his family per year. This simple gifting arrangement will help save the client an estimated \$4940 in Tennessee estate taxes for every year he makes the gifts.

One important note: Don't count on giving a huge gift each year in a single chunk. Any gift over \$13,000 to a single individual is taxed at an onerous 50% rate.