People often say that there two things that unavoidable in life: death and taxes. So, to some it seems unfair when the two coincide and estate taxes are required to be paid on the assets that remain at the time of their death. The estate tax rate is 45 percent, or almost one half of the assets left in your estate. Accordingly, many people are interested in learning how to minimize their estate taxes and maximize the amount of money that is left to the beneficiaries that they designate in their wills.

What is Not Included When Calculating Estate Taxes

The first thing to understand when you begin your financial planning is that certain assets are not included when calculating estate taxes. Under current federal laws, $2,000,000 of your estate is automatically exempt from tax if you die in 2008. For those who pass away in 2009 the exemption amount is $3,500,000 and pursuant to current law there is no death tax if you die in 2010. However, in 2011 the exempt amount drops back down to $1,000,000 unless Congress takes action to change that. While California has eliminated the estate tax, other states continue to impose an estate tax. The monetary amount in the estate that is exempt from taxation varies from state to state.

Property that passes from you to others via a trust is also not included in your assets for estate tax purposes if the trust is properly constructed.

How to Minimize Estate Taxes

There are a variety of legal strategies that you can use to minimize your estate tax obligations including:

Marital Deduction: Money that passes from a deceased spouse to a living spouse is usually not subject to estate tax. However, married couples need to be mindful of how the inheritance to the living spouse will effect his or her estate when the second spouse dies. The money could make the surviving spouse's estate large enough to be subject to estate tax.
Charitable Deductions: bequests that are left to qualifying charities are also exempt from federal estate tax.
Debt and Expenses: before specific bequests are distributed according to your will, all of your debts and expenses need to be satisfied. That includes any loans or mortgages that you hold, your funeral expenses and any other expenses or losses related to the administration of your estate.
Gifts: Currently, you can give any individual a $12,000 gift annually without incurring any taxes. A married couple can give individuals $24,000 annually. Many families find this to be an effective way of decreasing the value of their estate because, for example, parents can give their child and her spouse $48,000 annually plus another $24,000 for each child. You can also pay someone's tuition or medical expenses directly to the institution without any tax implications.
Trusts: Certain types of trusts can be legally drafted to pass assets to certain individuals or groups without estate tax being imposed.

The estate tax is high and can take a lot of money away from the people to whom you intend to leave your assets. Therefore, if you have assets valuing approximately $2,000,000 or more it is important to seek the counsel of a qualified estate planning attorney in your state.

For more information on estate taxes, contact Michael J. Davis today.