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Q: What is the estate tax, and do I have a filing requirement?

A: The estate tax is a tax on the transfer of a decedent's property, based on the fair market value at date of death. For decedents who died in 2019, a Federal Form 706 (Estate Tax Return) must be filed if the aggregate fair market value of the decedent's property was over $11.4mm at date of death.

Q: Why are estates over $11.4mm taxable?

A: This is an exemption amount known as the estate and gift tax unified credit. This amount, adjusted annually for inflation, is a deduction against the taxable amount of transfers made during life or at death.

Q: What other deductions can be claimed on an estate return?

A: Legal fees, accounting fees, administration fees, mortgages and other debt, property passing to charities. Additionally, any property passing to the decedent's spouse qualifies for a marital deduction. Bequests to all other individuals are taxable.

Q: Being taxed on the fair market value of substantially appreciated items seems unfair. Are there any tax provisions mitigating this?

A: Yes – while this can be disadvantageous for estate taxes, it provides a great benefit for income taxes. The cost basis of property steps up to fair market value as of the date of death. Take for example, stock purchased a long time ago that has appreciated considerably. If the stock is liquidated as part of estate succession, there will very little, if any, realized gain to report due to the step up in cost basis.

Q: Are there any requirements for nontaxable estates?

A: Yes - nontaxable estates must file a special nontaxable estate tax form to be filed with the probate court district in which the decedent was domiciled.