



Financial Planning Tax Considerations: Estate and Education Part 1

Course #30906B

Taxes

2 Credit Hours

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FINANCIAL PLANNING TAX CONSIDERATIONS: ESTATE AND EDUCATION PART 1 X

This course explains when federal gift and estate taxes apply and explores common strategies to reduce or eliminate these taxes. It also highlights the key tax benefits available to surviving spouses and beneficiaries, providing a foundational understanding for effective estate planning.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Estate and Gift Taxes Tax Benefits for Survivors

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Identify when the federal gift tax and estate tax apply and various methods of eliminating this taxation.
- Recognize the tax benefits offered to surviving spouses and beneficiaries.

NOTICE

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Program publication date **9/15/25**

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: ESTATE AND GIFT TAXES

Chapter Objective

After completing this chapter, you should be able to:

- Identify when the federal gift tax and estate tax apply and various methods of eliminating this taxation.

I. INTRODUCTION

When individuals sit down to plan their estate, they are often concerned about several competing interests. On the one hand, most individuals want to minimize their tax liability during their lifetime. On the other hand, people want to leave as much property and other assets to their heirs as possible without those heirs being subject to estate or gift tax. Income tax considerations therefore play a very important role in planning an estate.

If an individual gives someone money or property during his or her lifetime, the individual may be subject to federal gift tax. The money and property an individual owns when he or she dies (the individual's estate) may be subject to federal estate tax. The purpose of this chapter is to provide a general understanding of when these taxes apply and when they do not. It explains how much money or property an individual can give away during his or her lifetime or leave to his or her heirs at death before any tax will be owed.

Note



A provision of the Tax Cuts and Jobs Act doubled the estate and gift tax exemption for estates of decedents dying and gifts made after December 31, 2017, and before January 1, 2026. This is accomplished by increasing the basic exclusion amount provided in section 2010(c)(3) of the Code from \$5 million to \$10 million. The \$10 million amount is indexed for inflation occurring after 2011. For 2025, the exemption amount is \$13.99 million.

While the estate and gift tax exemption amount was originally set to revert to a lower amount in 2026, the One Big Beautiful Bill Act (OBBBA) enacted in July 2025 made the higher exemption permanent, increasing it to \$15 million per individual for 2026 and future years.

A. MAJOR CHANGES TO ESTATE AND GIFT TAXES

On January 1, 2013, Congress approved and the President signed into law new legislation titled the American Taxpayer Relief Act of 2012 ("ATRA-2012").

In addition to extending the Bush-era income tax cuts for 98% of U.S. taxpayers, the new law also made permanent the sweeping changes originally made to the federal estate and gift tax rules under the 2010 Tax Act and EGTRRA of 2001.

Impacts of the 2012 American Taxpayer Relief Act and subsequent changes include:

- The federal estate tax exemption amount was raised to \$13.99 million for all deaths occurring in 2025.
- The federal estate tax rate was set at 40%, up from 35% in prior years.
- The federal estate and gift tax unification was extended permanently.
- The generation-skipping transfer (“GST”) tax exemption amount is the same as the estate tax exclusion amount (\$13,990,000 for 2025).
- Portability. ATRA-2012 extends the ability of a deceased spouse’s estate to transfer any unused portion of the deceased spouse’s exemption amount to the surviving spouse.

B. RELATIONSHIP BETWEEN ESTATE AND GIFT TAXES

Unlike most tax structures, the estate tax and gift tax are unified – integrated – into one tax system. The federal estate and gift tax imposes a tax on transferring assets: one tax catches transfers made during the individual’s life – the gift tax, the other catches transfers at death – the estate tax. Transfers while an individual was alive and at his or her death are combined and subject to one progressive tax. The rates are the same for both taxes.

The reunification of the gift and estate exemptions (permanently made effective by the ATRA) provides planning opportunities for clients who desire to make large lifetime gifts, but who don’t want to pay gift tax.

C. NORMALLY NO TAX OWED

Most gifts are not subject to the gift tax and most estates are not subject to the estate tax. (Less than 1% of all estates are subject to the estate tax.) For example, there is usually no tax if an individual makes a gift to his or her spouse or a qualified charity or if his or her estate goes to his or her spouse or qualified charity upon death. If an individual makes a gift to someone else, the gift tax does not apply until the value of the gifts given to that person is more than the annual exclusion for the year. Even if tax applies to a gift or estate, it may be eliminated by the Unified Credit, discussed later.

D. NO RETURN NEEDED

Generally, an individual does not need to file a gift tax return unless he or she gives someone, other than his or her spouse, money or property worth more than the annual exclusion for that year. Although a return may be required, no actual gift tax will become payable until the cumulative lifetime taxable gifts exceed the applicable exclusion amount.

The donor is primarily responsible for the payment of the gift tax. An estate tax return generally will not be needed unless the estate is worth more than the applicable exclusion amount for the year of death. This amount is shown in the section under Unified Credit, below.

E. NO TAX ON PERSON RECEIVING GIFT OR ESTATE

The person who receives a gift or estate generally will not have to pay any gift tax or estate tax because of it. In addition, that person will not have to pay income tax on the value of the gift or inheritance received. Note, however, that there are some technical applications for “Income in Respect of Decedent” under Internal Revenue Code §691 that will have to be considered for income earned but not otherwise taxed prior to the date of death.

F. NO INCOME TAX DEDUCTION

Making a gift or leaving an estate to a decedent’s heirs does not ordinarily affect federal income tax. An individual cannot deduct the value of gifts made (other than gifts that are deductible charitable contributions).

Example



Chuck has a valuable stamp collection that has been appraised at \$10,000. He would like to give the collection to his grandson, Harold, before his death. If he chooses to make the gift, it will not be subject to gift tax because it is below the taxable threshold. However, Chuck is not entitled to take a deduction from his income tax for the value of the collection. The gift has no impact on Chuck’s current tax liability whatsoever.

G. UNIFIED CREDIT

1. Application to Estate and Gift Taxes

A credit is an amount that eliminates or reduces tax. The unified credit applies to both the gift tax and the estate tax. An individual must subtract the unified credit from any gift taxes that he or she owes. Any unified credit that is used against an individual’s gift tax in one year reduces the amount of credit that he or she can use against his or her gift tax in a later year. The total amount used against an individual’s gift tax reduces the credit available to use against his or her estate tax.

2. Amount of Credit

The ATRA-2012 made permanent the reunification of the gift and estate exemption from 2010 of \$5,000,000 (inflation indexed). Based on changes made by the Tax Cuts and Jobs Act of 2017, the exemption amount was increased (to \$13,990,000 in 2025).

Note



The OBBBA made the higher exemption permanent, for 2026 and later years.