PacificCPE

COURSE
30906C

Financial Planning: Estate Taxes, Gift Taxes, and Survivor Benefits

Estate and gift planning touches nearly every high-net-worth client relationship, and the rules are more layered than they first appear. This course covers the federal estate tax, gift tax, and generation-skipping transfer tax, walking through exemptions, taxable transfers, and state death taxes. It also explores tax benefits available to survivors, including income and estate tax provisions that apply after a spouse or family member passes. CPAs and tax professionals involved in wealth transfer planning or estate administration will find this course a valuable resource for navigating these sensitive but critical issues.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course 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.

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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 sitdowntoplan their estate, they are oftenconcerned about severalcompet ing 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 $15 million for all deaths occurring in 2026.
- 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 ($15,000,000 for 2026).
- 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 permanentthereu nificationof the giftandestateex emption from2010 of$5,000,000 (inflation indexed). Based on changes made by the Tax Cuts and JobsAct of 2017, the exemption amount was increased (to $13,990,000 in 2025). **Note:** The OBBBA raised this to $15 million in 2026.

Note

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

II. ESTATE TAXES: AN OVERVIEW

A. FORM 706

The executor of a decedent's estate uses Form 706 to figure the estate tax imposed by Chapter 1 of course 30904M of the Internal Revenue Code. This tax is levied on the entire taxable estate, not just on the share received by a particular beneficiary. Form 706 is also used to compute the generation-skipping transfer (GST) tax imposed by Chapter 2 of course 30905M on direct skips (transfers to skip persons of interests in property included in the decedent's gross estate).

B. WHICH ESTATES MUST FILE

Federal law provides an exemption from estate tax in an amount that varies from year to year. For example, for decedents who die in 2026, there is a $15 million exclusion amount. If the value of the estate is less than the applicable exemption in the decedent's year of death, no return is required. Current rules are shown in Table 14-1, below.

TABLE 14-1. INCREASED ESTATE TAX APPLICABLE EXCLUSION AMOUNT

An estate tax return for a U.S. citizen or resident needs to be filed only if the gross estate exceeds the applicable exclusion amount.

Applicable Exclusion Amounts	
Year	**Exclusion Amount**
2010 and 2011	$5,000,000
2012	$5,120,000
2013	$5,250,000
2014	$5,340,000
2015	$5,430,000
2016	$5,450,000
2017	$5,490,000
2018	$11,180,000
2019	$11,400,000
2020	$11,580,000
2021	$11,700,000
2022	$12,060,000
2023	$12,920,000
2024	$13,610,000
2025	$13,990,000
2026	$15,000,000

To determine whether an executor must file a return for the estate, add:

- The adjusted taxable gifts (under § 2001(b)) made by the decedent after December 31, 1976;
- The total specific exemption allowed under § 2521 (as in effect before its repeal by the Tax Reform Act of 1976) for gifts made by the decedent after September 8, 1976; and

- The decedent’s gross estate valued at the date of death.

C. GROSS ESTATE AND TAXABLE ESTATE

The gross estate includes all property in which the decedent had an interest (including real property outside the United States). It also includes:

- Certain transfers made during the decedent’s life without an adequate and full consideration in money or money’s worth;
- Annuities;
- The includible portion of joint estates with right of survivorship;
- The includible portion of tenancies by the entirety;
- Certain life insurance proceeds (even though payable to beneficiaries other than the estate);
- Property over which the decedent possessed a general power of appointment;
- Dower or curtesy (or statutory estate) of the surviving spouse; and
- Community property to the extent of the decedent’s interest as defined by applicable law.

After determining the gross value of a decedent’s estate, the personal representative should take all possible deductions to reduce the taxable estate. These deductions include:

- Funeral expenses paid out of the decedent’s estate;
- Debts the decedent owed at the time of death; and
- The marital deduction (generally, the value of the property that passes from the decedent’s estate to his or her surviving spouse).

D. ADMINISTRATIVE EXPENSES

Expenses of administering an estate can be deducted from the gross estate in figuring the federal estate tax.

1. Typical Expenses

In general, administration expenses deductible in figuring the estate tax include:

- Fees paid to the fiduciary for administering the estate;
- Attorney, accountant, and return preparer fees;
- Expenses incurred for the management, conservation, or maintenance of property; and

- Expenses in connection with the determination, collection, or refund of the estate's tax liability.

2. No Double Dipping

Administrative expenses cannot be claimed for both estate tax and income tax purposes. The expenses incurred in the sale of property are deductible from the gross estate only if the sale was necessary to pay decedent debts, or to preserve or distribute the property of the estate.

E. MARITAL DEDUCTION

One of the primary deductions for married decedents is the Marital Deduction.All property that is included in the gross estate and passes to the surviving spouse is eligible for the marital deduction. The property must pass "outright." In some cases, certain life estates also qualify for the marital deduction.

F. CHARITABLE DEDUCTION

If the decedent leaves property to a qualifying charity either during his or her life or at death, it is deductible from the gross estate. Potential donors must be sure the "charity" they are considering qualifies for tax purposes.

Generally, only the five following types of organizations can be qualified organizations:

- A community chest, corporation, trust, fund, or foundation organized or created in or under the laws of the United States, any state, the District of Columbia, or any possession of the United States (including Puerto Rico). It must be organized and operated only for one or more of the following purposes:
  - □ Religious;
  - □ Charitable;
  - □ Educational;
  - □ Scientific;
  - □ Literary; or
  - □ The prevention of cruelty to children or animals.

Certain organizations that foster national or international amateur sports competition also qualify;

- War veterans' organizations, including posts, auxiliaries, trusts, or foundations, organized in the United States or any of its possessions;