PacificCPE

COURSE
40756A

Executor Essentials: Estate and Income Tax Obligations

Taxes are often the most complex part of estate administration, and executors need a clear understanding of their filing obligations. This course covers the full tax picture: final income tax returns, estate income, federal and state estate taxes, and the marital deduction for assets passing to a surviving spouse. It also addresses how to determine which state's tax laws apply. For CPAs and tax professionals, this course directly supports the advisory and compliance work they perform for estate clients and executor clients alike.

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

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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

- Recognize which gifts are exempt from taxation.

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Chapter 1: TAXES

Chapter Objective

After completing this chapter, you should be able to:

- Recognize which gifts are exempt from taxation.

In this chapter, we discuss the executor's responsibility to pay taxes owed by the estate or the deceased person. Fortunately, your job as executor probably won't entail any novel or complicated tax issues. But if tax issues do arise that are too complex for you to figure out alone, you can always enlist help from an expert, and pay for that help using estate assets.

OVERVIEW

Before getting into the nitty-gritty of income and estate taxes, here's a quick look at the big picture.

Who Is Responsible for Filing Tax Returns?

If the probate court appoints you executor, you are responsible for filing tax returns and paying tax bills on time.

If an official executor has not been named by the probate court, whoever has taken responsibility for the deceased person's property is responsible for taxes, too. Usually, that's a relative who stands to inherit property or a friend who's agreed to wind up the deceased person's affairs.

Returns You Might Need to File

The table below lists all the possible tax returns you might have to file. But don't get discouraged—it's unlikely that you'll actually need to file more than a few. Also keep in mind that expert tax help is readily available.

Most executors must file state and federal income tax returns for the year in which the deceased person died. If the estate goes through probate and during that time receives income, you'll also need to file an income tax return for the estate itself. (And state law might require you to notify the state taxing authority that you've begun a probate proceeding, so that the state is sure to get paid.)

You won't need to file a federal estate tax return unless the estate is very, very large. For deaths in 2026, a return will be required only for estates worth more than $15 million, meaning 99.9% of estates will not owe the tax. Each year, this number is adjusted for inflation.

About a quarter of the states impose their own state estate tax. If your state does have an estate tax, the exemption might be anywhere from $1 million to $15 million (for deaths in 2026). Each state's

threshold is listed in Appendix A. The sections at the end of this chapter discuss federal and state estate taxes in more detail.

Tax Returns You Might Need to File

Kind of Return	Required If:	Due Date
Final federal income tax return (for last months of the deceased person's life)	The deceased person received at least a minimum amount of income (set by federal law) in the last calendar year of life.	April 15 of the year following the death
Final state income tax return (for last months of the deceased person's life)	The deceased person received at least a minimum amount of income (set by state law) in the last calendar year of life.	April 15 of the year following the death
Federal income tax return for the estate	The estate receives more than a minimum amount of income (set by federal law).	April 15 (for previous calendar year)*
State income tax return for the estate	The estate receives more than a minimum amount of income (set by state law).	April 15 (for previous calendar year)*
State inheritance tax return	The state imposes inheritance tax (return may be filed by the executor or those who inherit).	Depends on state law
Federal estate tax return	The amount of property left is very large—see "Federal Estate Tax" later in this chapter. (More than 99% of estates do not owe federal estate tax.) Or the deceased person's spouse wants to "elect portability" even though the deceased person's estate does not trigger federal estate tax. (See "The Unlimited Marital Deduction and Portability for Spouses," below.)	Nine months after death Five years after death if filing the return solely to elect portability.
State estate tax return	The state imposes its own estate tax and the amount of property left surpasses the state's exemption amount.	Eight to eighteen months after the death, depending on the state's rule

*Or, if the estate chooses to use a noncalendar tax year, the 15th day of the fourth month after the end of the estate's taxable year.

Resource

Getting tax forms. You can get state tax forms from the Federation of Tax Administrators at www.taxadmin.org/state-tax-forms. You can get federal tax forms from the Internal Revenue Service at www.irs.gov.

Where Does the Money Come From?

The money to pay taxes comes from what the deceased person left. You aren't responsible for paying the deceased person's taxes unless you are the surviving spouse and you share responsibility for them.

The will might direct you to use a certain source—insurance proceeds or a certain bank account, for example—to pay taxes or other debts. But it might not say a word about it. If the will doesn't give you any direction, you'll pay taxes and debts in the order set out by your state's law. Your state might also have laws specifically addressing what property to use to pay federal estate taxes.

Your Personal Liability

If you don't file required tax returns or pay what's due, your neglect could cost you in the form of penalties and interest. If you hire professionals to prepare the returns, you still have this personal responsibility; if the pros are late, it's your fault for not supervising them well enough. (But you might have a claim against the professional. Professionals usually have a special liability insurance called Errors & Omissions, or E&O, insurance to cover this type of situation.)

Tax debts take priority over just about all other debts of the estate. So rule number one (and two and three, for that matter) is never pay significant amounts to other creditors or give estate property to beneficiaries unless you're sure the estate will have enough left to pay any tax due. If you paid creditors or distributed estate property after you were notified about taxes, and the estate comes up short, you could be personally liable for the tax bill, up to the amount you distributed to other creditors or beneficiaries. (Of course, you'll need to pay some routine bills, such as utilities and monthly mortgage payments, just to take care of the estate property—see Chapter 1 of course 40755B.)

Example 1

Cara is the executor of her mother's estate. She receives a notice of tax due, but puts it aside for the moment and pays several large debts of the estate. She also hands out a large sum to an inheritor. Months later, she is unpleasantly surprised to find that the estate doesn't have enough money left to pay her mother's final income tax bill. Because the estate originally had enough to pay this tax, and Cara knew about the tax but didn't prioritize it over other distributions, she must now pay out of her own pocket to cover the portion of taxes that the estate can't cover.

Example 2

Lincoln, the executor of his aunt's estate, forgets to file his aunt's last income tax return. As a result, he is personally liable for the interest and penalties charged by the IRS— which takes a sizable chunk out of the money he inherits from his aunt.

Paying Taxes on Your Compensation

If you accept compensation for acting as an executor, you must include the amount as part of your own gross income at tax time. If you're a professional executor or if your fees are related to running a business that's part of the estate, you'll also owe self-employment tax. (See IRS Publication 559, Survivors, Executors, and Administrators.) Executors who inherit much or all of the estate commonly waive their right to take a fee from the estate. (See Chapter 2 of course 40751B.)

THE DECEASED PERSON'S INCOME TAX RETURN: FORM 1040

As the executor, it's your job to file the deceased person's final income tax returns for the year of death. You must file both state and federal returns (and a local return, if required). If a joint return is filed, the surviving spouse shares this responsibility. (IRC § 6013(a).) Of course, the executor is often the surviving spouse.

If the deceased person regularly got help from a tax preparer, that person will likely be of invaluable help to you, too. So when you look through the deceased person's records, pay attention to the name of any tax service, lawyer, or accountant.

See an Expert

Missing tax returns. If you discover that the deceased person didn't file returns for previous years—not uncommon in cases of long illness—the job of filling in those gaps also falls to you. If you file the missing return and write a letter explaining the circumstances, the IRS might waive late fees and penalties.

Resource

More information. See IRS Publication 559, Survivors, Executors, and Administrators, for more on how to complete and file federal income tax returns on behalf of the deceased person and estate.

Is a Return Required?

If the deceased person received little income in the last year of life, you don't have to file income tax returns. The amount of income that triggers the requirement for filing an income tax return—for everyone, including those still living—is called the standard deduction. The standard deduction amount depends on the person's age and marital status. For example, if the deceased person was single and under 65, a federal income tax return must be filed if the deceased earned more than $15,750 (the figure for tax year 2025). For a married couple filing jointly, the minimum amount would be $31,500. Those over 65 have a slightly higher standard deduction. These figures are adjusted annually. You can get the current standard deduction amounts from the IRS website (www.irs.gov) and your state's taxing authority.

Find out the deceased person's standard deduction, and then add up the gross income for the tax year. If the gross income exceeded the standard deduction, you'll need to file the income tax return. Gross income usually includes money, goods, and property the deceased person received from, for example, a job, pension, investments, disability payments, and IRAs and retirement plans (except Roth IRAs and Roth 401(k)s. For people with larger incomes, a portion of Social Security might also be taxable. Gross income also includes gross receipts from self-employment, minus the cost of goods sold. In other words, everything that was income before death is still considered income.

Even if a return isn't required, file one anyway if a refund is coming. A refund might be due if tax was withheld from salaries, pensions, or annuities that the deceased person received.

Special Rules for Surviving Spouses

As you might expect, some special rules apply to surviving spouses.

Filing a joint return. A surviving spouse has the option of filing a joint tax return for the year of the deceased spouse's death, unless the spouse remarries during that year. In that case, file a "married filing separately" return for the deceased taxpayer.

Tax benefits for surviving spouses. If you are a surviving spouse and have a dependent child, you might get an income tax break for two tax years after the death of your spouse. If you qualify for a special filing status, called "qualifying surviving spouse," you can pay the tax rate that usually applies only to married couples. The result might be a smaller tax bill. To be eligible, you must meet all of these requirements:

- You were entitled to file a joint return with your spouse for the year of death (whether or not you actually did).
- You did not remarry before the end of the current tax year.
- You have a child, stepchild, or adopted child who qualifies as your dependent for the tax year.
- You have lived with this child in your home all year, except for temporary absences.
- You provide more than half the cost of maintaining your home.

When the Income Tax Return Is Due

You'll need to file an income tax return for the year in which the person died. That's called the final tax return, and it's due when it would have been due if the deceased person were still alive—for most people, on April 15.

Taxation of Social Security Benefits

Whether Social Security benefits are taxable depends on the recipient's total income and marital status.

Generally, if Social Security benefits were the deceased person's only income, they are not taxable. If the deceased person received other income as well, use the worksheet in the Form 1040 instruction book to find out how much, if any, of the Social Security income is taxable.

For more information, see IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

If the person died before filing a tax return for the year before the death, you'll have to file that tax return as well.