

# Taxes & Estate Planning

Continental Management's Senior Solutions

812-426-1921 or 1-800-489-1921



## The Federal Estate Tax

If you're fortunate enough to give away substantial amounts of money or property during your lifetime, your generosity may be subject to federal gift tax rules.

After death, your money and property, known as your estate, may also be subject to federal estate tax. However, you can give money away during your lifetime or leave certain amounts to your heirs that are exempt from taxation.

The Economic Growth and Tax Relief Reconciliation Act of 2001 called for the phase out of the federal estate tax. Although most tax experts expected Congress to change the law before that happened, the estate tax did die in 2010.

It was reinstated, however, in 2011. That tax year, estates in excess of \$5 million were taxed at 35 percent. For deaths in 2012, the estate tax exemption increased to \$5.12 million thanks to inflation. And thanks to the American Taxpayer Relief Act of 2012, which was passed Jan. 1, 2013, the estate tax was made a permanent part of the tax code and the exemption amount automatically indexed for inflation.

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## Good to know

Indiana repealed the State inheritance tax in May of 2013.

## Annual gift tax exclusion

In 2014, you can give up to \$14,000 to each person and to as many individuals as you want, without triggering the gift tax. The amount is indexed each year for inflation.

In addition to the annual exclusion amounts, you also can give the following without triggering the gift tax:

- Charitable gifts.
- Gifts to a spouse.
- Gifts to a political organization for its use.
- Gifts of educational expenses.
  - *These are unlimited, but some rules may apply.*
- Gifts of medical expenses.
  - *Unlimited as long as they are paid directly to the medical facility.*

Gifting is a great way to reduce the estate in order to reduce the impact of the Federal estate tax. At the same time, you can enjoy watching those you love use the money during your lifetime.

Contact us, today for your appointment to discuss how you can better arrange your estate.

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## What You Should Do

The federal estate tax exemption is indexed for inflation and this will continue in future years. This annual increase in the federal estate tax exemption may lull many into a false sense of security with regard to *estate planning* since *estate tax planning* will no longer be required for the majority of the American population.

When it comes to estate taxes and gift taxes, don't use them as an excuse to put off making or updating your estate plan. The consequences of not having an estate plan, or having an outdated estate plan, are simply too great.

As mentioned above, planning for estate taxes is only one very small piece of the puzzle, and the beauty of estate planning is that estate plans can be made flexible enough to change as your life and the laws change.

Unfortunately, no one can predict the future and if and when someone will become mentally incapacitated or when someone will die. Be smart - regardless of the large \$5.34 million estate tax, gift tax and generation skipping transfer tax exemptions, be sure to make an estate plan, or update your old and outdated estate plan, to protect you and your loved ones.

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For the 2014 tax year, the estate tax exclusion amount is \$5.34 million at a rate of 40%.

The new estate tax law, however, does offer permanent portability between spouses. This allows the surviving spouse the opportunity to take advantage of any unused estate and gift tax exemption left by the first spouse. The portability option must be selected when the estate tax return of the first spouse is filed, even if no federal estate tax is owed.

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## The Unified credit

In estate planning, you also must consider the unified credit. It gets its name because the federal gift tax and estate tax are integrated into one unified tax system.

This is the credit for the portion of estate tax due on taxable estates. For example, if you exceed the annual gift tax exclusion amount in any year, you can either pay the tax on the excess or take advantage of the unified credit to avoid paying the tax. The unified credit enables you to give away over \$5 million (plus the annual inflation adjustments) during your life without a gift tax.

By using the unified credit during your life, you'll reduce the amount available to offset the estate tax upon your death. If, however, you pay the gift tax, such taxed gifts are added back to your estate, and the estate tax is recalculated, with the gift taxes you previously paid credited against any final estate tax due.