



Pioneer Bank & Trust

Trust & Investments

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Federal estate tax exemption

DEAR TRUST OFFICER:

My estate is about \$5 million—do I have to worry about federal estate taxes?
—AFFLUENT, NOT RICH

DEAR AFFLUENT:

You are very close to the boundary for exposure to the federal estate tax. The exemption for 2016 has been increased to \$5.45 million, which would seem to let you off the hook. However, how accurate is your estimate of your estate? Have you included the full value of your home and other real estate? Do you own interests in a closely held business that might be worth more than you realize? Do you own any fine art? Values in some parts of the art market have boomed recently. Getting a precise fix on the value of an estate is not an easy matter. What's more, if your assets grow in value faster than inflation, you could easily find yourself in taxable territory.

On the other hand, are you married? If so, to the extent that your property passes to your surviving spouse, federal estate taxation will be deferred until the survivor's death, no matter how large your estate is when you die. What's more, your surviving spouse may inherit any federal estate tax exemption that goes unused by your estate. That means your spouse won't have to worry about federal estate taxes unless the estate grows to over \$10 million (plus accumulated inflation adjustments).

However, there is one more point to consider—state death taxes (estate taxes, inheritance taxes, or both). Do you live in a state (or own property in a state) that has “uncoupled” from the federal estate tax regime? A few states impose their death taxes on much smaller estates than does the federal government. If you live in one of these states, you should see an estate planner promptly to explore your options.