Understanding Minnesota Estate Tax:
Smart Ways to Leave More for Your Family
Federal Exemption Amounts

• Unified Credit
  – 2016: $5.45 million
  – Inflation adjusted annually
  – Can be used for lifetime or testamentary gifts
  – Unused unified credit can be transferred to your spouse at your death – “Portability”
    • Portability Example
  – 40% tax rate
Minnesota Exemption Amounts

• 2016: $1.6 million
• 2017: $1.8 million
• 2018 and later: $2.0 million
• No scheduled inflation adjustments after 2018
• Unused exemption amount cannot be transferred to your spouse at your death
  – Example
• 10-16% tax rate
State Estate Taxes

- Delaware - $5,450,000
- Hawaii - $5,450,000
- Maine - $5,450,000
- Illinois - $4,000,000
- New York - $3,125,000
- Vermont - $2,750,000
- Washington - $2,054,000
- Connecticut - $2,000,000
- Maryland - $2,000,000
- Minnesota - $1,600,000
- Rhode Island - $1,500,000
- Massachusetts - $1,000,000
- Oregon - $1,000,000
- Washington D.C. - $1,000,000
- New Jersey - $675,000
State Inheritance Taxes

- Nebraska - $10,000
- Maryland - $1,000
- Kentucky - $500
- New Jersey - $500
- Iowa - None
- Pennsylvania - None

Note: These amounts may vary based on the class of the individual who receives the inheritance.
Ways to Reduce Estate Taxes

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Gross estate</th>
<th>Alternate value</th>
<th>Value at date of death</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Schedule A—Real Estate</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Schedule B—Stocks and Bonds</td>
<td>2</td>
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</tr>
<tr>
<td>3</td>
<td>Schedule C—Mortgages, Notes, and Cash</td>
<td>3</td>
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<tr>
<td>4</td>
<td>Schedule D—Insurance on the Decedent’s Life (attach Form(s) 712)</td>
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<tr>
<td>5</td>
<td>Schedule E—Jointly Owned Property (attach Form(s) 712 for life insurance)</td>
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<tr>
<td>6</td>
<td>Schedule F—Other Miscellaneous Property (attach Form(s) 712 for life insurance)</td>
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<tr>
<td>7</td>
<td>Schedule G—Transfers During Decedent’s Life (att. Form(s) 712 for life insurance)</td>
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<td>8</td>
<td>Schedule H—Powers of Appointment</td>
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<tr>
<td>9</td>
<td>Schedule I—Annuities</td>
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<tr>
<td>10</td>
<td>Estimated value of assets subject to the special rule of Reg. section 20.2010-2T(a)(7)(ii)</td>
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<tr>
<td>11</td>
<td>Total gross estate (add items 1 through 10)</td>
<td>11</td>
<td></td>
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<tr>
<td>12</td>
<td>Schedule U—Qualified Conservation Easement Exclusion</td>
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<tr>
<td>13</td>
<td>Total gross estate less exclusion (subtract item 12 from item 11). Enter here and on line 1 of Part 2—Tax Computation</td>
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</table>

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Deductions</th>
<th>Amount</th>
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<tbody>
<tr>
<td>14</td>
<td>Schedule J—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims</td>
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<td>15</td>
<td>Schedule K—Debts of the Decedent</td>
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<td>16</td>
<td>Schedule K—Mortgages and Liens</td>
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<tr>
<td>17</td>
<td>Total of items 14 through 16</td>
<td>17</td>
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<tr>
<td>18</td>
<td>Allowable amount of deductions from item 17 (see the instructions for item 18 of the Recapitulation)</td>
<td>18</td>
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<tr>
<td>19</td>
<td>Schedule L—Net Losses During Administration</td>
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<tr>
<td>20</td>
<td>Schedule L—Expenses Incurred in Administering Property Not Subject to Claims</td>
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<td>21</td>
<td>Schedule M—Bequests, etc., to Surviving Spouse</td>
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<td>22</td>
<td>Schedule O—Charitable, Public, and Similar Gifts and Bequests</td>
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<tr>
<td>23</td>
<td>Estimated value of deductible assets subject to the special rule of Reg. section 20.2010-2T(a)(7)(ii)</td>
<td>23</td>
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<tr>
<td>24</td>
<td>Tentative total allowable deductions (add items 18 through 23). Enter here and on line 2 of the Tax Computation</td>
<td>24</td>
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</tbody>
</table>
Marital Deduction Example – No Planning

Death 1: No tax

Decedent: $1.6 million
Spouse: $1.6 million

Death 2: $172,000 in Minnesota estate tax

Spouse: $3.2 million
Estate Planning – Marital Deduction
Trust Planning to Utilize Both Spouse’s Exemption Amounts

Assets

Marital Share

Spouse

Credit Shelter Share

Spouse or Descendants

Principal

Income
Marital Deduction Example – Credit Shelter Trust Planning

Death 1: No tax

- $3.2 million of assets
- Marital Share $1.6 million
- Credit Shelter Share $1.6 million

Death 2: No tax

- Marital Share $1.6 million
Estate Planning – Charitable Deduction

• Outright Gifts
  – Reduce estate on a dollar-for-dollar basis
  – Unlimited
  – Good assets to gift
    • Qualified assets (traditional IRAs, 401(k)s, etc.)
    • Appreciated assets (during life)
Charitable Giving-Outright Qualified Asset Example

• Two estate assets
  – Stock portfolio: $1 M
  – Traditional IRA: $1 M
  – 50% to charity, 50% to children
Charitable Giving-Outright Qualified Asset Example

- Assume each beneficiary gets 50% of each asset
Charitable Giving-Outright Qualified Asset Example

- Assume the charity gets the IRA and the children get the stock portfolio

1,000,000 1,000,000

Charity

Children
Charitable Giving-Outright Appreciated Asset Example

• 300 shares of 3M stock
  – Fair market value: $140
  – Purchase price (2000): $95
  – Selling stock – gifting cash

$12,490 tax savings from charitable gift (assuming 32% rate)
Charitable Giving-OUTRIGHT
Appreciated Asset Example

• 300 shares of 3M stock
  – Fair market value: $140
  – Purchase price (2000): $95
  – Gifting appreciated stock

- Charity - $42,000
- $13,440 tax savings from charitable gift (assuming 32% rate)
Charitable Giving-In Trust
Charitable Remainder Trust

• Non-charitable recipient or recipients get an income stream
  – Term of years (up to 20 years)
  – Lifetime of one person
  – Joint lifetime of two or more people

• Charity gets the remainder
Charitable Giving-In Trust
Charitable Remainder Trust Example

- Keith (70) and Ashley (65)
- $1,000,000 in stock to charitable remainder unitrust
- 5% trust payout rate
- Joint lifetimes

- During life
  - Current year charitable deduction: approximately $370,000
  - At first death: No estate tax
  - At second death: No estate tax
Example of CRUT

Husband and Wife (income) → Wife (income) → Charity (remainder)

Sheltered by Marital Deduction

Sheltered by Charitable Deduction
Charitable Giving-In Trust
Charitable Remainder Trust Example

• Keith and Ashley
  – Child: Scott (40)
• $1,000,000 in stock to charitable remainder unitrust
• 5% trust payout rate
• Scott’s lifetime

• At second death of Keith and Ashley
  – Stock included in estate: $1,000,000
  – Estate tax charitable deduction: approximately $450,000
Example of CRUT

Scott (income)  Charity (remainder)

Sheltered by Charitable Deduction
Estate Planning – Lifetime Gifting

• Federal Gift Tax
  – $14,000 per recipient per year
  – $28,000 per recipient per year if married and “gift-splitting” is elected
  – Anything in excess of these amounts uses unified credit (currently $5.45 million)

• No Minnesota Gift Tax
  – BUT: Taxable gifts made within 3 years of death are added back to the Minnesota estate
Estate Planning – Lifetime Gifting

• Annual exclusion gifts
  – Make gifts of cash, stock, or other assets up to the annual exclusion amount
  – Remember that gifts of appreciated assets do not get a “step up” in basis at the donor (i.e. the giver’s death). Therefore, it may be beneficial to have the donor hold highly appreciated assets until death.
Estate Planning – Lifetime Gifting

• 529 Plans (with or without frontloading)
  – 529 plans are college savings vehicles
  – Can “frontload” the 529 plan by putting in 5 years of annual exclusion gifts and electing to have it treated as being ratably made over 5 years

• Med/Ed Exception
  – Can make payments directly to medical or educational institutions on behalf of another individual without using annual exclusion or unified credit
Estate Planning – Lifetime Giving

• Life insurance trusts
  – Can use life insurance policies to leverage the amount of inheritance beneficiaries receive by using annual exclusion amounts to pay policy premiums
  – Life insurance policy is not included in the decedent’s estate if it is set up properly
Estate Planning – Lifetime Giving

• Gift in excess of annual exclusion gifts but under federal unified credit to minimize Minnesota estate taxes
  – Watch out for the 3 year pullback rule
  – Watch out for the trade-off between income and estate tax rates