

FAQ: What kind of taxes may be imposed upon one's death?

There are different taxes for which an estate may be subject. These include (a) estate tax; (b) income tax; and (c) inheritance tax.

(a) Estate tax: In 2016, an estate will be subject to federal estate tax if the value of the estate exceeds \$5,450,000 (this number will be adjusted for inflation annually.) In that situation, a 40% tax will be imposed on the excess, although the tax does not apply to property passing to charity and a spouse who is a U.S. citizen.

In addition, a *state* estate tax may be imposed, depending on where the decedent lived at the time of his or her death. For Maryland residents, an estate tax will be imposed if the value of the estate is \$2 million or greater (this threshold will increase to \$3 million in 2017, \$4 million in 2018, and will equal the federal exemption amount in 2019 and thereafter). D.C. imposes an estate tax on D.C. estates if the value of the estate exceeds \$1 million, although this threshold may increase if certain revenue goals are met. Virginia does not have a state estate tax.

Note that a federal and/or state estate tax return must be filed (or should be filed) in certain situations even if no estate tax is due. For example, for a married couple, there may be significant tax benefits available if a federal estate tax return is filed upon the first spouse's death.

(b) Income tax: An estate or trust must file a fiduciary income tax return (Form 1041) to pay the income tax on any income earned by the estate or trust from the date of death until the estate or trust is closed. There will also be a final income tax return that must be prepared, covering all income earned during the year prior to the date of the decedent's death. These returns are generally prepared by an accountant or tax preparer hired by the Personal Representative.

(c) Inheritance tax: If the decedent was a Maryland resident, an inheritance tax is also imposed on amounts passing to certain beneficiaries, most notably, friends, nieces, nephews and cousins. Amounts received by a spouse, descendant, ancestor, sibling and charity are not subject to this tax. Virginia and D.C. currently do not have an inheritance tax.