

Federal Estate Tax Made Simple

What is the Federal Estate Tax?

Federal estate tax is an excise tax on the right to transfer property at the occurrence of death. Further, the tax only applies to taxable estates that exceed the taxable exclusion amount, which is \$2,000,000¹ for 2007. Gross estate consists of the fair market value of all assets owned by the decedent at the date of death, including life insurance policies. The top estate tax bracket is 46%² on taxable estate over \$2,000,000.



How will Estate Tax affect me?

Below is a chart depicting the affect of estate tax on various estates. The following is hypothetical, and should only be used for educational purposes.

<u>A</u> Estate Size	<u>B</u> Administration Expenses ³	<u>C</u> Taxable Estate (A-B)	<u>D</u> Federal Estate Tax	<u>E</u> Total Costs (B+D)
\$1,000,000	\$60,000	\$940,000	\$0	\$60,000
\$1,500,000	\$85,000	\$1,415,000	\$0	\$85,000
\$2,000,000	\$110,000	\$1,890,000	\$0	\$110,000
\$2,500,000	\$135,000	\$2,365,000	\$167,900	\$302,900
\$3,000,000	\$160,000	\$2,840,000	\$386,400	\$546,400
\$3,500,000	\$185,000	\$3,315,000	\$604,900	\$789,900
\$4,000,000	\$210,000	\$3,790,000	\$823,400	\$1,033,400
\$5,000,000	\$260,000	\$4,740,000	\$1,260,400	\$1,520,400
\$6,000,000	\$310,000	\$5,690,000	\$1,697,400	\$2,007,400
\$8,000,000	\$410,000	\$7,590,000	\$2,571,400	\$2,981,400
\$10,000,000	\$510,000	\$9,490,000	\$3,445,400	\$3,955,400
\$15,000,000	\$760,000	\$14,240,000	\$5,630,400	\$6,390,400
\$20,000,000	\$1,010,000	\$18,990,000	\$7,815,400	\$8,825,400
\$30,000,000	\$1,510,000	\$28,490,000	\$12,185,400	\$13,695,400
\$40,000,000	\$2,010,000	\$37,990,000	\$16,555,400	\$18,565,400
\$50,000,000	\$2,510,000	\$47,490,000	\$20,925,400	\$23,435,400
\$100,000,000	\$5,010,000	\$94,990,000	\$42,775,400	\$47,785,400

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¹ The applicable exclusion amount is the dollar value of assets protected from federal estate tax by an individual's applicable credit amount. It is scheduled to change as follows: \$2,000,000 for 2006-2008; \$3,500,000 for 2009; zero federal estate tax for the year 2010; and \$1,000,000 for 2011 and thereafter (unless permanently repealed or otherwise modified).

² The top bracket will reduce as follows: 45% from 2007 through 2009; and zero taxes in 2010. If Congress does not repeal the federal estate tax by 2010 the tax will return to 55% in 2011 and thereafter.

³ Administration expense is assumed to be 5.0% of Estate Size, plus \$10,000 for last illness and burial costs. Administration fees and last illness and burial expenses are deductible in determining the federal estate tax. The actual total cost could be more or less than the amount shown.