

DO I PAY TAXES IN PENNSYLVANIA WHEN SOMEONE LEAVES ME MONEY?

“Taxation is logically going to be a very big concern when you are planning your estate, and it's something that you would be thinking about if you are in line for an inheritance. In this paper we will provide some clarity about taxes on asset transfers.”





Taxation is logically going to be a very big concern when you are planning your estate, and it's something that you would be thinking about if you are in line for an inheritance. In this paper we will provide some clarity about taxes on asset transfers.

INCOME TAX

It can seem as though you are required to report any type of income that you receive from any source on your annual income tax return. In fact, you are not required to report an inheritance as taxable income.

ESTATE TAX

There is an estate tax on the federal level, and there are states in the union that levy state-level estate taxes. An estate tax is not levied on each individual asset

transfer; it is levied on the entire taxable portion of the estate in question.

The credit or exclusion is \$5.43 million in 2015. This is the amount that you can transfer to anyone other than your spouse tax-free. If your spouse is an American citizen, you can transfer unlimited assets to your spouse free of taxation.



If you are transferring more than \$5.43 million, the federal estate tax would be a factor for you. However, each individual inheritor would not be required to pay a tax. The tax would reduce the whole before it was distributed.

A number of states impose state-level estate taxes. Our firm is located in Pennsylvania, and there is no state estate tax in our state.

FEDERAL GIFT TAX

When you hear about the federal estate tax, you may decide to give gifts to your loved ones while you are living to avoid this tax. To prevent this, the federal gift tax was enacted, and it has been continuously in place since 1932.

The gift tax is unified with the estate tax, and the exclusion applies to taxable gifts along with the value of your estate. As a result, you gain no transfer tax efficiency if you give large gifts while you are living.



We should point out the fact that the unlimited marital deduction also applies to lifetime gift giving. You can give any amount of money and/or property to your spouse at any time without incurring any transfer tax exposure.

INHERITANCE TAX



An inheritance tax is not the same thing as an estate tax. This type of death tax is levied on transfers to each respective nonexempt inheritor.

There is no inheritance tax on the federal level, but there are six states in the union that impose state-level inheritance taxes. As luck would have it, Pennsylvania is one of these six states.

If you are transferring assets to your spouse or your minor children, the transfers would be exempt from the Pennsylvania inheritance tax. Bequests that you leave to anyone else are potentially subject to the Pennsylvania inheritance tax.

CAPITAL GAINS TAX



Another tax that you may have questions about is the capital gains tax. If you inherit appreciated assets, are you responsible for the capital gains? The answer is no, because you get a step-up in basis. Under the tax code, the value of the inherited assets would be equal to their value at the time you acquired these assets.

However, if they continue to appreciate, you would be responsible for those gains if and when they are realized. You realize a gain when you sell the asset.

SUMMARY

You do not have to report an inheritance as income for tax purposes, and you are not responsible for capital gains that took place during the life of the decedent.

There is no federal inheritance tax, but there is a state-level inheritance tax that can come into play.

There is also a federal estate tax that is a factor for people who have accumulated more than \$5.43 million in wealth. Some states levy state-level estate taxes, but there is no state estate tax in Pennsylvania.

If you are exposed to taxation on any level, there are steps that you can take to reduce the burden. The best way to proceed will vary on a case-by-case basis.

To explore your options with regard to tax efficiency strategies, schedule a consultation with a licensed estate planning attorney.

REFERENCES

IRS

<http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Estate-and-Gift-Taxes>

Pennsylvania Department of Revenue

<http://www.revenue.pa.gov/FormsandPublications/FormsforIndividuals/Pages/Inheritance-Tax.aspx#.VInXr8ksp9k>

About Flood & Masiuk, LLC



Marianne Flood

As the founder and managing partner of the Southampton, Pennsylvania law firm of Flood & Masiuk, LLC, Marianne Flood oversees a practice devoted to providing clients with personalized service and counsel in all aspects of estate planning.

Because of Ms. Flood's deep commitment to the specialty of estate planning, she became a member of the American Academy of Estate Planning Attorneys in April, 2000. Her entire private practice has been devoted to helping families of

all ages and backgrounds.

Joe Masiuk

As a partner in the law firm of Flood & Masiuk, LLC, Joseph Masiuk is committed to, a practice which provides people of all ages and walks of life with thoughtful and comprehensive solutions in Estate Planning, which includes Elder Care, Medicaid and Special Needs Planning.

Today, Mr. Masiuk is a widely noted speaker, author and seminar leader on topics ranging from estate and Medicaid planning to asset protection for traditional and GLBT couples and families.

Flood & Masiuk, LLC
703 Lakeside Park
Southampton, PA 18966
Phone: (215) 322-6330
Fax: (215) 322-9199
Website: www.floodmasiuk.com