

Estate Tax Facts

Excerpted From IRS Publication 950

“If I had a million dollars, I’d be rich” according to a pop song. Having a million dollars is an admirable feat, but being worth \$1 million or \$1.5 million, is not terribly far-fetched anymore. Properties, retirement accounts, investments and savings can quickly add up to \$1.5 million, at which point estate taxes become a critical factor in the financial planning equation. Comprehensive understanding of tax laws is the best way to avoid estate taxes. The IRS publication below explains how the estate tax exemption works. As you determine the amount of estate tax you will pay, refer to the “applicable exclusion amount.” This term describes the portion of your estate that is not taxed. The “unified credit” refers to the taxes you will save on those assets.

Unified Credit (Applicable Exclusion Amount)

A credit is an amount that eliminates or reduces tax. A unified credit applies to both the gift tax and the estate tax. You must subtract the unified credit from any gift tax that you owe. Any unified credit you use against your gift tax in one year reduces the amount of credit that you can use against your gift tax in a later year. The total amount used during life against your gift tax reduces the credit available to use against your estate tax.

Under prior law, the same unified credit amount applied to both the gift tax and the estate tax. Under current law, however, the unified credit against taxable gifts will remain at \$345,800 (exempting \$1 million from tax) through 2009, while the unified credit against estate tax increases during the same period. The following table shows the unified credit and applicable exclusion amount for the calendar years in which a gift is made or a decedent dies after 2003.

Year	For Gift Tax Purposes:		For Estate Tax Purposes:	
	Unified Credit	Applicable Exclusion Amount	Unified Credit	Applicable Exclusion Amount
2004 and 2005	345,800	1,000,000	555,800	1,500,000
2006, 2007, and 2008	345,800	1,000,000	780,800	2,000,000
2009	345,800	1,000,000	1,455,800	3,500,000

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