

## Interrelated Estate Tax

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Year of Death:	2020
Gross Estate:	\$17,000,000
Deductions:	\$100,000
Adj. Taxable Gifts (After '76):	\$0
Unified Credit Used by Gifts:	\$0
Other Credits:	\$0
State Death Tax:	\$0
Fixed Noncharitable Bequest:	\$250,000
Fixed Charitable Bequest:	\$0
Percent of Remainder to Charity:	20.00000%
Deceased Spousal Unused Exclusion:	\$250,000

Adjusted Gross Estate:	\$16,900,000.00
Charitable Deduction:	\$3,178,695.65
Taxable Estate:	\$13,721,304.35
Adjusted Taxable Gifts:	\$0.00
<b>Tentative Tax Base:</b>	<b>\$13,721,304.35</b>
Tentative Tax:	\$5,434,321.74

Gross Federal Estate Tax:	\$5,434,321.74
Applicable Exclusion Amount:	\$11,830,000.00
Unified Credit:	\$4,677,800.00
Other Credits:	\$0.00
<b>Net Federal Estate Tax:</b>	<b>\$756,521.74</b>
State Death Tax:	\$0.00
<b>Total Death Taxes:</b>	<b>\$756,521.74</b>

Residuary Estate:	\$15,893,478.26
Charitable Residue:	\$3,178,695.65
Total Value Passing to Charity:	\$3,178,695.65
Noncharitable Residue:	\$12,714,782.61
Total Noncharitable Value:	\$12,964,782.61

## Interrelated Estate Tax

Wills (and revocable trusts) are sometimes written so that the federal estate tax (and state death taxes, if any) are paid out of a fund that would otherwise qualify for a charitable deduction. This usually happens because there are gifts to friends and family members that result in federal estate tax, all or part of the residue of the estate is paid to charity, and the residue of the estate must pay the federal estate tax. The charitable deduction is based on what the charity actually receives, after all taxes are paid, so the charitable deduction is reduced by the federal estate tax that is payable on the value of the noncharitable interests in the estate.

The noncharitable interests that generate estate tax might be cash gifts of specific amounts to family members, or they might be a fractional shares of the residue, or they might be annuity or unitrust interests payable from a charitable remainder trust that produces a charitable deduction for only a fraction of the value of the residue passing into the trust.

For example, a person might have made taxable gifts during lifetime that have used up all (or most) of the applicable exclusion amount, and might then die with a will leaving additional gifts of specific amounts (or specific property) to various family members and the rest of the estate in a charitable remainder trust that pays an annuity to the decedent's children for the rest of their lives. Depending on the ages of the children and the amount of the annuity, the charitable deduction might be a relatively small fraction of the value of the residue of the estate. The estate tax will be based on the total value of the estate less the present value of the charitable remainder, and the estate tax will reduce the residue of the estate and the amount passing into the charitable remainder trust.

Because the federal estate tax both reduces the charitable deduction and is itself not deductible, the calculations of the charitable deduction and federal estate tax become "interrelated" or circular. The federal estate tax reduces the charitable deduction, which increases the estate tax payable, which further reduces the charitable deduction, which further increases the federal estate tax, and so forth. Fortunately, the numbers will "converge" on a result that then does not change with repeated calculations.

Once the federal estate tax liability is known, it is relatively easy to prove the correctness of the calculation by using the estate tax liability to calculate the charitable deduction, and then using the charitable deduction to calculate the federal estate tax. If the resulting federal estate tax is the same as the initial federal estate tax, then the results are correct.