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# Interrelated Estate Tax

Prepared for: Sample

Prepared by: Brentmark

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# Interrelated Estate Tax

Date of Death:	10/14/2022
Gross Estate	\$15,000,000
Deductions:	\$3,500,000
Exclusion Inflation Rate:	3.00%
Deceased Spouse:	Not Applicable
Adjusted Taxable Gifts after 1976:	\$3,000,000
Unified Credit Used:	Assume Maximum Allowed Used
State Death Tax:	Calculate
State Abbreviation:	CT
State Adjustment:	\$0
Out-of-State Property:	\$0
QTIP Amount:	\$0
Other Credits (Federal):	\$250,000
Noncharitable Fixed Bequests:	\$175,000
Charitable Fixed Bequests:	\$350,000
Residue to Charity:	10.00000%

## Results

Adjusted Gross Estate:	\$11,023,745
Charitable Deduction:	\$1,397,878
Taxable Estate:	\$9,458,122
Adjusted Taxable Gifts:	<u>\$3,000,000</u>
Tentative Tax Base:	\$12,458,122
Tentative Tax:	\$5,039,766
Gross Federal Estate Tax:	\$5,039,766
Applicable Exclusion Amount:	\$12,060,000
Unified Credit:	\$4,769,800
Other Credits:	<u>\$250,000</u>
Net Federal Estate Tax:	\$19,966
State Death Tax:	<u>\$476,255</u>
Total Death Taxes:	\$496,221
Residuary Estate:	\$10,478,779
Charitable Residue:	\$1,047,878
Total Value Passing to Charity:	\$1,397,878
Noncharitable Residue:	\$9,430,901
Total Noncharitable Value:	\$9,605,901

*This scenario is a hypothetical illustration based on the assumptions you entered via the inputs inside the program. It is to be used solely as a conceptual guide to understand and quantify your planning needs. It would be wise to consider this illustration together with all other information you deem necessary in making your investment decisions. This illustration is not a guarantee of the performance of any specific investment. Actual performance from your investments and assets may vary. This illustration is not legal or tax advice. You should consult with your attorney and accountant to review this information and determine its appropriateness for your particular situation. The provider of this illustration provides no guarantee and assumes no responsibility or liability for the accuracy of the information provided (including whether the interest rate you have selected is in fact "reasonable") or for your reliance based on this information.*

# 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.