
§6166 Installment Payment of Estate Tax

Prepared for: Sample

Prepared by: Brentmark

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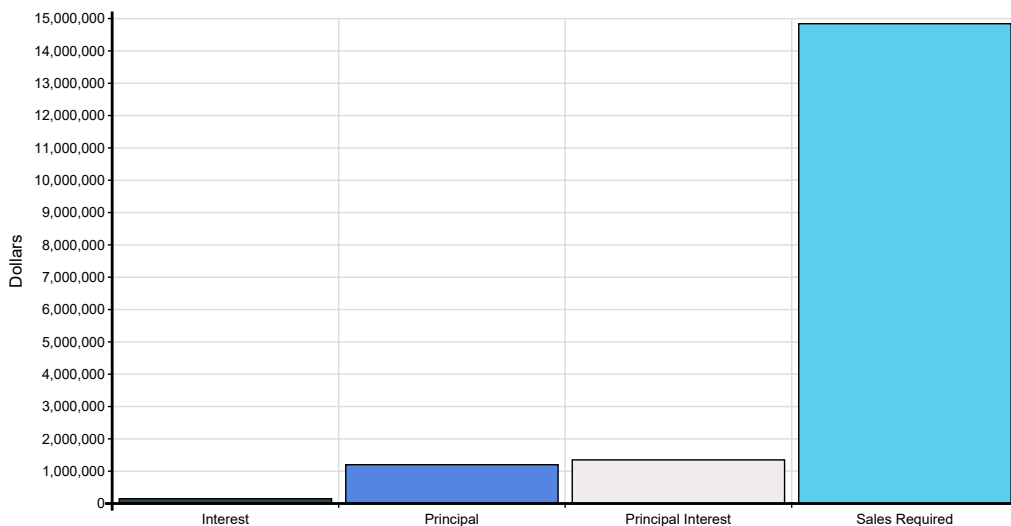
Tax Year:	2022
Profit Margin of Business:	9.00%
Underpayment Rate:	1.00%
Inflation Rate:	3.00%
Gross Estate:	\$18,000,000
Administrative Expenses:	\$750,000
Value of Business:	\$35,000,000
Net Federal Estate Tax:	\$1,200,000

Results

Adjusted Gross Estate:	\$17,250,000
35% of Adjusted Gross Estate:	\$6,037,500

ESTATE DOES QUALIFY FOR SECTION 6166 BENEFITS

Amount that can be Deferred:	\$1,200,000
Tax that Must be Paid Now:	\$0
Amount Used to Calculate 2 Percent Amount:	\$1,640,000
2 Percent Amount:	\$656,000
Amount of Tax at 'Going Rate':	\$544,000
Net Cost of Interest:	\$149,203
Cost of Principal:	\$1,200,000
Total Cost:	\$1,349,203
Sales Needed to Net One Cent:	\$0.11
Sales to Pay Total Cost:	\$14,841,233



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Year	Principal 2%	Interest 2%	Principal 0.45%	Interest 0.45%	Total Interest	Total Payment
1	\$656,000	\$13,252	\$544,000	\$2,454	\$15,706	\$15,706
2	\$656,000	\$13,252	\$544,000	\$2,454	\$15,706	\$15,706
3	\$656,000	\$13,252	\$544,000	\$2,454	\$15,706	\$15,706
4	\$656,000	\$13,252	\$544,000	\$2,454	\$15,706	\$15,706
5	\$590,400	\$13,252	\$489,600	\$2,454	\$15,706	\$135,706
6	\$524,800	\$11,927	\$435,200	\$2,208	\$14,135	\$134,135
7	\$459,200	\$10,601	\$380,800	\$1,963	\$12,564	\$132,564
8	\$393,600	\$9,276	\$326,400	\$1,717	\$10,993	\$130,993
9	\$328,000	\$7,951	\$272,000	\$1,472	\$9,423	\$129,423
10	\$262,400	\$6,626	\$217,600	\$1,227	\$7,853	\$127,853
11	\$196,800	\$5,301	\$163,200	\$981	\$6,282	\$126,282
12	\$131,200	\$3,976	\$108,800	\$736	\$4,712	\$124,712
13	\$65,600	\$2,650	\$54,400	\$491	\$3,141	\$123,141
14		\$1,325		\$245	\$1,570	\$121,570
Totals		\$125,893		\$23,310	\$149,203	\$1,349,203

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.

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This calculation determines if an estate meets code §6166 requirements. That Code Section allows a four-year deferral of tax (interest only is payable) and then requires the unpaid tax be paid, together with interest, over an up to 10-year period. It then calculates the limit of the amount that can be deferred and paid in installments and the amount of tax that is due immediately. It computes the 'two percent' amount, that is, the amount of tax upon which an extremely favorable 2% rate can be paid and the amount eligible for 45% Underpayment Rate, (any balance of tax) and then the annual payments and the after-tax cost to make those payments.

Code §6166 was created to alleviate an estate's liquidity problems. If the estate qualifies to use §6166, an executor may use installment payments to pay the federal estate tax attributable to the decedent's interest in a closely held business.

Generally, 2% interest is applied to the tax generated by the incremental estate tax on \$1,640,000 (adjusted for inflation after 2023) above the unified credit applicable exclusion amount. The 'going rate' (a rate of 45% of the interest charged to unpaid income or estate tax) is applied to the balance. Both rates are calculated on a daily compounded basis. To qualify for §6166, the gross estate must include an interest in a closely held business whose value is more than 35% of the decedent's adjusted gross estate. The tax, which may be paid in installments, is the proportion attributable to the value of the closely held business. The balance of the estate tax is paid nine months after the decedent's death.

§6166 is a useful tool when an estate is unable to pay tax without selling assets at a loss. It is also useful when the business or estate is capable of earning a greater after-tax rate of return than it spends in interest for the deferral privilege.

If the estate meets §6166 requirements, the first payment of principal and interest must be paid within five years and nine months from the date of death. Succeeding installments are paid within one year of the previous one. Most planners will recommend that this Code Section be combined with Code §303 in order to use corporate dollars to pay estate taxes and bail those dollars out of the corporation without income tax. Corporate owned life insurance is typically used to finance the corporation's purchase of stock from the estate. That cash is then used year after year to pay for the interest and principal under Code §6166.