INHERITED ASSETS

Stepped-Up Basis?
Introduction

What do you need to know about inherited assets’ basis to answer your 1040 clients’ questions.

Which year did the decedent die?

How did the decedent own and transfer property?
Overview

Estate basis - assumed from decedent
  - Generally FMV at date of death

Beneficiary may receive the property distribution with significant time passed
  - Still FMV at date of death

Property representing IRD
  - No FMV
Track Asset to Right Return

Decedent’s
  - 1040
  - 1041

Surviving spouse’s
  - 1040
  - 1041

Beneficiary’s 1040
When the Client Needs to Know the Basis of Inherited Property?

- Sold
- Trade or business
- Investment property
- Personal asset
General Rules
Type of Basis Adjustments

Step-up basis

No step-up basis

Modified carryover basis
Definition of Basis of Inherited Property

Ownership of property

Type of property

Time of death

Allocation of transfer basis
Ownership of the Orchard

With or without will
Joint spouse
A/B trust
Joint other than spouse
POD
TOD
Grantor trust
My Tax Season: Client’s Question

Inherited the following assets:

- Boat
- Land
- Backhoe/equipment
- House
- Rental property
- Annuity
- Mutual fund
- Bank account
Eligible Assets for Basis Adjustment

Has to be owned by the decedent at the time of death

Joint property w/spouse
Joint property w/non-spouse
Will
Qualified revocable trust
POD/TOD
Ineligible Assets for Basis Adjustment

“IRD” - income in respect of a decedent
  - Examples:
    IRAs
    Pension
    Annuity

Gifts before death

Irrevocable trust of decedent
2010 Old Law

For deaths in 2010 only
No estate tax

Basis = modified carryover basis
  > of adjusted basis or FMV
Modified Carryover Basis

Basis is lesser of decedent adjusted basis or FMV

Basis increase:
- $1.3 mil - non
- $3 mil - spouse
Modified Carryover Basis cont.

Additional basis increase modifications:

- Capital loss carryovers
- Net operating loss carryovers
- Passive losses
2010 New Law

2010 to 2012 same as before
- FMV at date of death
- Exclusion of $5 million

Can elect modified carryover basis
- Form 8939
When Was DOD?

- <2010
- >2010
- =2010
- >2012
# Federal Estate Tax Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Highest Estate &amp; Gift Tax Rate</th>
<th>Amt. Exempt from Estate Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>45%</td>
<td>$3.5 million</td>
</tr>
<tr>
<td>2010</td>
<td>0%</td>
<td>Unlimited</td>
</tr>
<tr>
<td>2010</td>
<td>35%</td>
<td>$5 million</td>
</tr>
<tr>
<td>2011</td>
<td>35%</td>
<td>$5 million</td>
</tr>
<tr>
<td>2012</td>
<td>35%</td>
<td>$5 million</td>
</tr>
</tbody>
</table>
Election General Rules

<=$1.3 million

<=$1.3 + $3 million w/ ss

>$5 million

Losses
Basis Adjustment – Entity Ownership

Basis adjustment for property held by:

- Estate & trust – usual way
- Partnership – election
- S corporation – stock only
Gifting

Definition

Annual limits

Lifetime gifting
What Happens if Client Dies?

Most clients do not need to file Form 706
Tell the representative/spouse to do a balance sheet
- Cash
- Mutual funds
- Farm (appraisal)
- Business (appraisal)
- Installment sale
Summary

Asset

- How owned
- Eligibility
- Year of death
- Allocation of basis
Thank you

Don’t forget to stop by the NATP booth in the EXPO Hall for a handout related to this session