



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

Year	Highest Estate & Gift Tax Rate	Amt. Exempt from Estate Tax
2009	45%	\$3.5 million
2010	0%	Unlimited
2010	35%	\$5 million
2011	35%	\$5 million
2012	35%	\$5 million

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

Gifts

Definition

Annual limits

Lifetime gifts

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