Your *Trust* Matters

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THE WHAT, WHO, WHEN, AND WHERE OF IOWA INHERITANCE TAX

There are many things to consider when establishing your estate plan and Inheritance tax should be one of them. No one ever looks forward to paying tax, no matter what kind of tax. But being surprised by a tax is even more difficult to bear. Let's take a look at the Iowa Inheritance tax and what it might mean to your estate plan:

WHAT IT IS AND WHAT IT IS NOT: The State of Iowa imposes a tax based upon a person's right to receive or "inherit" property from a deceased person. Inheritance tax is not to be confused with "estate tax". The Federal "Estate Tax" is a tax based only on the value of a person's entire amount of property owned at death and is imposed by the Federal government. The State of Iowa does not have an "estate tax" as some states do; however, Iowa does have an Inheritance tax as herein discussed. The Inheritance tax is imposed whether the deceased leaves his or her property under a Will, through a Trust distribution mechanism, or without either (such as an intestate estate).

WHO IT AFFECTS AND WHO IT DOES NOT: Inheritance tax is dependent upon a person's relationship to the deceased and the amount to be inherited. Iowa exempts certain persons and entities from this tax. Such exempt persons are lineal descendants, including spouses, children, stepchildren, grandchildren, parents, grandparents, grandchildren, and other lineal descendants or ascendants. Not-for-profit entities such as churches, schools, 501c3 organizations, veteran's organizations, libraries, hospitals, and municipalities, are likewise exempt. Inheritance tax IS imposed on non-lineal descendants such as siblings, aunts, uncles, nieces, nephews, in-laws and anyone not related to the decedent. When the tax applies, tax brackets range from 5% to 15%, based on relationship to the decedent and how much one receives. The more distant the beneficiary, the higher the rate of tax. Under common law, the recipient of the property is liable for payment of the tax; however, if the Will or Trust specifically states otherwise, the tax could be borne by the estate or trust and not deducted from the recipient's share.

WHEN AND WHEN NOT: Inheritance tax comes into play at one's death. It is due and payable nine months after the date of death. If tax is determined to be due, even if there is no formal probate of an estate or executor appointed, a tax return is required. If a decedent passes away with a total net estate of less than $25,000, the tax is zero and there is no filing requirement. Likewise, if all of the net estate passes to exempt persons, again there is no filing requirement. However, if one or more of the beneficiaries is a charity or not-for-profit, a filing requirement still exists, even though there is no tax imposed.

WHERE AND WHERE NOT: Not every state has an Inheritance tax. Iowa is one of only six states imposing such tax along with Maryland, New Jersey, Pennsylvania, Kentucky, and Nebraska. Imposition of the tax isn't based on where the recipient lives; it matters solely on where the deceased person lived.

Of course, there are more intricacies to Iowa's Inheritance tax law, but these are the basics for you to consider. Many times, recipients of inheritances are surprised by the necessity of the tax. You can avoid such surprises by regularly reviewing your estate plan and discussing your intentions with your legal counsel or trust professional, especially if you are considering providing distributions to unrelated or non-lineal parties.