LEHNER LAW OFFICE
LIMITED LIABILITY COMPANY

816 Dodd Rd, Suite A
West St. Paul, MN 55118
T 651.222.9829 | F 612.900.0020

Andrew M. Lehner
Karen M. Vander Sanden
Eric C. Dammeyer (Ret.)
*Admitted in MN & WI

ESTATE TAX PRIMER FOR MINNESOTANS

Background

We all understand that our government levies taxes on its constituents to fund its services and governance. But there are several types of taxes. The tax most of us encounter everyday is the sales tax. A sale of goods is a time when our governors see it fit to tax us. Perhaps the most famous tax is the income tax – the transfer of money from employer to employee, from borrower to lender (interest) are two common forms of income. Each year, income earners file a return with the IRS to determine how much they owe in light of their level of income for the past year.

The Estate tax is a completely separate tax triggered by an individual's death. This passing of wealth from one person to another – often one generation to another – is currently taxed by our federal government and, in Minnesota and many other states, by the state government.

Current Status of Estate Tax Laws

But estate taxes are not triggered *every* time someone dies. This tax only applies if an estate exceeds a certain threshold amount. Currently, the federal estate tax exemption is more than $11.5 million per person (2020) – any estate below this amount is not subject to the federal tax. The first dollar beyond the exemption is. Minnesota Estate taxes kick in at a lower amount - $3.0 million in 2020 and beyond (until/unless the legislature acts to change this law). While these are significant estate levels, they come up quickly once you consider what is considered in calculating the number.

Calculating the size of an Estate

It is obvious that in calculating estate size, one would add the values of all assets – bank account balances, portfolio values, retirement account values, real estate equity, etc. However, we do not stop there. One must add the value of death benefits that would be payable upon one's death and add it to the total value of their assets.

This means a person with modest assets and a $2 million life insurance policy may bump into the estate tax sooner than they expected.

Planning for Estate Taxes

There are several methods to employ in planning for estate taxes. Which method is most appropriate depends on several variables: estate size, your goals, willingness to give during one's lifetime, etc. Between a married couple, however, the use of Revocable Living Trusts can quickly serve to double the smaller state exemption. In other words, a couple can spend a few thousand dollars to shelter up to $6 million – rather than $3 million – in Minnesota.

If your estate approaches $3 million, please consider consulting with a good attorney to learn more about your specific situation.