

Demystifying Estate & Gift Tax

A Simple Guide to Understanding the Basics



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What Are We Talking About?

Estate Tax

- A federal tax on assets transferred at death.

Gift Tax

- A federal tax on transfers made during your lifetime.

Unified Credit (Lifetime Exemption)

The total amount you can give away before federal estate or gift taxes are owed.

Annual Exclusion

- The amount you can give to any one person each year without filing a gift tax return.

Internal Revenue Code (IRC)

- The federal tax law that governs estate and gift taxation.

A Quick History Snapshot

- Estate taxes date back to 1797 (often used to fund wars).
- The modern estate tax began in 1916.
- In 1976, the gift and estate tax systems were unified.
- In 2002, the exemption increased to \$1 million.
- In 2010, the estate tax was temporarily eliminated.
- In 2017, the exemption was doubled.
- In 2025, the exemption increased to \$15 million per person (indexed to inflation).

How Many People Actually Pay This Tax?

The estate tax affects very few Americans:

- In 2001, ~2.1% of decedents had taxable estates.
- In 2025, that number is about 0.10%.
- In 2019, 60% of filed estate tax returns owed zero tax.
- Estate tax revenue accounted for about 0.7% of total federal revenue in 2023.
- Farms subject to estate tax accounted for only 0.2% of taxable estates.

Bottom Line:

For most families, estate tax is not the primary estate planning concern – but understanding it is still important.

Common Myths

- ✗ “The estate tax hits the middle class.”
- ✓ Today’s exemption levels mean very few families are affected.
- ✗ “Family farms are routinely lost to estate taxes.”
- ✓ Data shows this is rare under current law.
- ✗ “It’s double taxation.”
- ✓ Critics argue assets were already taxed as income.
- Supporters note many assets include unrealized gains that were never taxed.

Why Some Support the Estate Tax

- Prevents extreme concentration of wealth
- Supports the idea of the “American Dream”
- Encourages charitable giving
- Serves as an alternative to taxing unrealized capital gains
- Generates federal revenue

Why Some Oppose It

- Viewed as double taxation
- Generates relatively small revenue
- Concerns about small businesses and farms
- Belief it discourages investment or wealth building
- With high exemptions, some argue it is now a “tax in name only”

Proposed Changes Being Discussed

1. Ending Perpetual (Long-Term) Trusts

Some states (including South Carolina) allow trusts to last for hundreds of years. Proposals suggest limiting this.

2. Inheritance Tax Model

Instead of taxing the estate, tax each recipient over a set inheritance limit.

Example:

\$1 million inheritance limit per beneficiary.

If \$3 million is left to 3 people → no tax.

If \$3 million is left to 1 person → tax on \$2 million excess.

3. Wealth Tax

Proposed by some lawmakers:

Annual tax on wealth over a certain threshold.

Constitutional questions remain.

4. Mandatory Trust Taxation

Some proposals suggest taxing trust assets even if they produce no income.

What This Means for You

Even if estate tax may not apply to you:

- ✓ Proper planning prevents confusion
- ✓ Proper planning protects your family
- ✓ Proper planning avoids crisis decision-making

Estate planning is about more than taxes.

It’s about control, clarity, and protecting what you’ve built.

Take Action!

- Review your current plan or create your first one.
- Don’t wait until a crisis hits.
- Take our estate plan quiz at lawyerlisa.com/quiz



Notes:

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