

# Federal and Ohio Estate Taxes (2006)

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(1) <b>ESTATE SIZE</b>  See over, for assets included in the federal and Ohio taxable estates	(2) <b>AMOUNT OF ESTATE TAX</b>  See example below.			(3) <b>TAX BRACKET</b>  Ohio/federal combined rate on excess over amount in column (1)
	<b>Ohio</b>	<b>Federal</b>	<b>Total</b>	
\$ 338,333	\$ 0	\$ 0	\$ 0	6%
500,000	9,700	0	9,700	7%
750,000	27,200	0	27,200	7%
1,000,000	44,700	0	44,700	7%
1,500,000	79,700	0	79,700	7%
2,000,000	114,700	0	114,700	7%
2,123,333*	123,333	0	123,333	49.8%
2,500,000	149,700	161,138	310,838	49.8%
3,000,000	184,700	375,038	559,738	49.8%
Excess over \$3,000,000				49.8%

Example: For an estate of \$2,750,000, there would be \$247,833 of estate tax – \$123,333 on the first \$2,123,333, plus \$124,500 (49.8%) on the remaining \$250,000.

\* The federal exclusion amount for 2006 is \$2,000,000. Because the amount of Ohio estate taxes paid is a deduction against the federal taxable estate, an estate of \$2,123,333 pays no federal tax. Above that, the interrelated federal (46%) and Ohio (7%) combined rate is 49.8%.

As the federal exclusion changes in the coming years (see table, over), the size of an estate free of federal estate tax will change. The Ohio exclusion and tax rate are not scheduled to change; all amounts in excess of \$500,000 will remain taxed by Ohio at 7%.

**Note for married couples:** With Living Trusts, the federal tax-free amount can be doubled. A couple with properly implemented trusts can eliminate all federal tax on the doubled amount. If the trusts contain provisions to leverage the \$338,333 Ohio exclusion amount and are properly implemented, much or all of the Ohio tax shown will be eliminated. Please call for a table showing the Ohio and federal tax savings for each estate size.

# Federal and Ohio Estate Tax Laws

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## Assets Included in the Taxable Estate

Federal estate – The only assets not included are a Section 529 plan and a burial plot of reasonable size. All other assets, including life insurance proceeds, IRAs, and other retirement accounts, are included.

Ohio estate – Almost all assets included, except life insurance paid to a beneficiary other than “my estate,” real estate in another state and its contents, the portion of a retirement plan contributed by your employer, and selected other assets.

## Unlimited Marital Deduction

If you are married, there is no federal or Ohio estate tax on assets you give to your spouse, or on assets going to a trust which benefits only your spouse during her/his lifetime and from which your spouse at least receives all of the trust income for life.

## Unlimited Charitable Deduction

There is no federal or Ohio estate tax on assets you give to charity. Also, there is no federal or state income tax on IRAs, qualified plans, and other retirement assets given to charity at your death.

## Exclusion Amounts

The 2006 federal exclusion amount – the amount of assets that you can transfer to your children without estate tax – is \$2,000,000. The exclusion amount for Ohio estate tax is \$338,333. The federal exclusion is scheduled to change as follows (revision of this schedule is expected during President Bush’s second term):

<u>Year of death</u>	<u>Federal Exclusion Amount</u>
2006 - 2008	\$ 2,000,000
2009	\$ 3,500,000
2010	Unlimited (estate tax repealed)
2011	\$ 1,000,000 (estate tax reinstated)

## Reduction of Value of Farm and Family Business Real Estate

Federal law – Real estate value can be discounted by up to \$900,000 by using farm value (or other business-use value), rather than full market value, if:

- (1) The farm (business) real estate is at least 25% of the taxable estate, and the real estate, equipment, and other business assets comprise at least 50% of the estate.
- (2) The real estate passes to a family member.
- (3) Family members owned the real estate at least 5 of the 8 previous years, and they materially participated in the farm (business) at least 5 of the 8 years before the owner’s death or before his/her drawing Social Security under retirement or disability.

The tax savings will be recaptured, with interest, if within 10 years (12 years, in certain circumstances) either (a) the real estate is no longer used in farming (in the business), (b) the new family owner does not materially participate in the farm (business), or (c) the real estate is sold to a non-family member.

Ohio law – **Farm value** (Ohio does not have a special rule for non-farm business real estate) can be discounted by up to \$500,000 by using CAUV valuation, rather than full market value, if federal requirements (1) and (2) are met. The tax savings will be recaptured, with interest, if within 4 years the real estate is no longer used in farming or it is sold to a non-family buyer.