The Tax Impact on Inheritance:

What Heirs Need to Know

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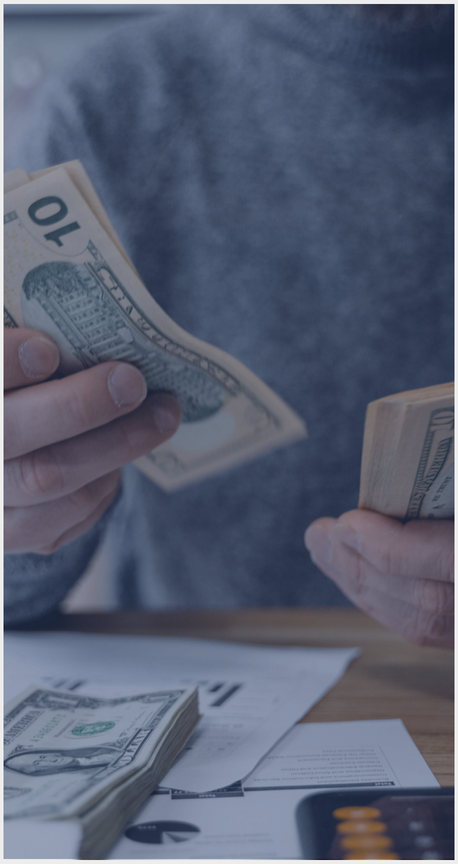
Introduction

At **Wiser Wealth Management**, we understand that inheriting assets can be both a blessing and a financial challenge. While inheritance provides an opportunity for wealth building, it also comes with potential tax implications that can significantly impact the value of what you receive. With this guide, we hope to demystify the complex world of inheritance taxation and provide you with practical strategies to preserve your family's wealth.

The Tax Impact on Inheritance

It's crucial to understand the distinctions between various types of taxes that may affect your inheritance:



01 Estate Tax

Levied on the total value of a deceased person's estate before distribution to heirs

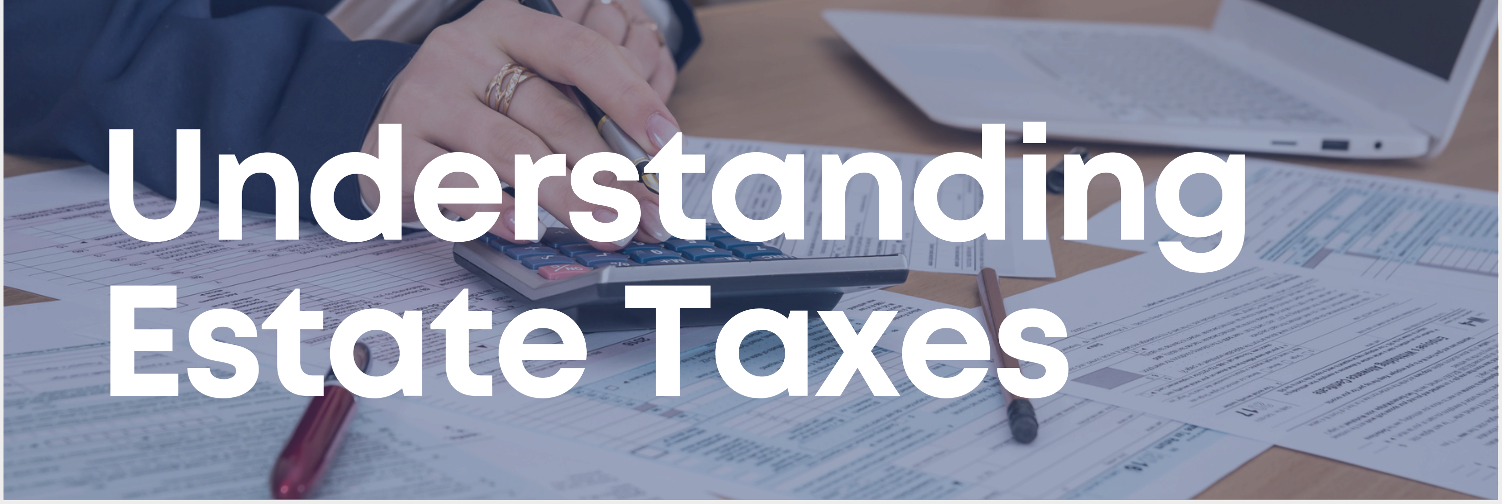
02 Inheritance Tax

Applied to beneficiaries based on their relationship to the deceased and what they inherit

03 Income Tax on Inherited Assets

Potentially due when certain inherited assets generate income or are sold

Many people mistakenly believe that all inheritances are heavily taxed or that estate taxes apply to everyone. In reality, with proper planning, many estates can minimize or avoid these taxes altogether. To ensure you're making the best decisions for your specific situation, it’s always a good idea to speak with a financial advisor who can guide you through the different tax implications and help you create an effective estate plan.



Understanding Estate Taxes

What are Estate Taxes?

Estate taxes are federal or state taxes levied on the transfer of property after death. The tax applies to the fair market value of all assets owned by the deceased at the time of death, including real estate, investments, business interests, and personal property.

Unlike inheritance taxes (which are paid by beneficiaries), estate taxes are paid from the estate before assets are distributed to heirs.

Current Estate Tax Exemption Limits

As of 2025, the federal estate tax exemption stands at $13.99 million per individual (potentially double for married couples). This means that estates valued below this threshold are not subject to federal estate tax.

However, some states impose their own estate or inheritance taxes with lower exemption thresholds. Currently, twelve states and the District of Columbia have estate taxes, and six states have inheritance taxes. Maryland is the only state with both. To find out if your state has inheritance tax, reach out to Wiser Wealth Management to learn more.

Understanding Estate Taxes

Who Pays Estate Taxes?

Estate taxes are paid by the estate itself, not directly by the heirs. The executor or personal representative of the estate is responsible for filing the estate tax return and ensuring payment from estate assets before distribution to beneficiaries. The impact of these taxes can significantly reduce what heirs ultimately receive, which is why proactive financial planning is essential.

Strategies to Minimize Estate Taxes

Several effective strategies can help reduce potential estate tax liability:

Gifting During Lifetime
- Annual gift exclusion: $19,000 per recipient (2025)
- Lifetime gift exemption: Shares the same $13.99 million exemption as the estate tax
- Direct payment of medical or educational expenses for others does not count toward gift limits

Strategic Use of Trusts
- Irrevocable Life Insurance Trusts (ILITs)
- Grantor Retained Annuity Trusts (GRATs)
- Qualified Personal Residence Trusts (QPRTs)

Charitable Planning
- Charitable remainder trusts
- Donor-advised funds
- Direct bequests to qualified charities

Capital Gains Tax and the Step-Up in Basis

What Is the Step-Up in Basis?

One of the most valuable tax benefits for heirs is the "step-up in basis." When you inherit certain assets, the cost basis of those assets is adjusted ("stepped up") to their fair market value as of the date of death, rather than the original purchase price. This provision can eliminate significant capital gains tax liability when inherited assets are sold.

Example of Step-Up in Basis Application

Scenario:

- Your parent purchased stock for $50,000 (original cost basis)
- At the time of their death, the stock is worth $200,000
- You inherit the stock with a new cost basis of $200,000
- Later, you sell the stock for $210,000
- Your capital gain is only $10,000 ($210,000 - $200,000), not $160,000

Without the step-up in basis, you would owe capital gains tax on the difference between the sale price and the original purchase price.

When the Step-Up in Basis Does Not Apply

The step-up in basis is not universal. Important exceptions include:

- Gifts received during the donor's lifetime: These retain the donor's original cost basis
- Retirement accounts: IRAs, 401(k)s, and annuities do not receive a step-up
- Jointly owned property: Only the deceased owner's portion typically receives a step-up

Taxation of Inherited Assets

Different types of assets are subject to different tax rules when inherited, below are outlined some potential assets and how they are taxed:

01 Retirement Accounts (IRAs, 401(k)s, etc.)

- **Traditional accounts:** Distributions are taxed as ordinary income to the beneficiary
- **Roth accounts:** Qualified distributions remain tax-free
- **Required Minimum Distributions (RMDs):** Non-spouse beneficiaries must generally withdraw all funds within 10 years of inheritance (with some exceptions)

02 Inherited Real Estate

- Receives step-up in basis to fair market value at date of death
- No immediate tax consequences upon inheritance
- Capital gains tax may apply if property appreciates after inheritance and is then sold

03 Stocks and Investments

- Non-retirement account investments receive step-up in basis
- No tax due until assets are sold
- Tax-loss harvesting strategies may offset gains from inherited investments

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Next Steps

Understanding the tax implications of inheritance is essential for preserving your family wealth. With proper planning and professional guidance, you can minimize tax burdens and maximize the long term benefit of inherited assets.

At Wiser Wealth Management, we are here to help create a custom financial plan to ensure that your inheritance is managed wisely. Wiser offers a complementary 30 minute consultation with our financial advisors to learn more about your unique situation and guide you to financial confidence.

Click here to schedule your consultation. We look forward to meeting you and sharing how we can help you make the most of your inheritance.

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