

Family Forest Owners and the Federal Estate Tax

Alabama Forest Owners' Association Annual Meeting
April 17-18, 2015 – General Session

- **Research shows that family forest owners are many times more likely than U.S. taxpayers in general to incur the federal estate tax**
 - **Of forest estates that owe federal tax, over 40% sell land or timber to pay part or all of the tax**
 - **Of the land sold, about 25% is converted to other, more developed uses**
- **The federal tax on transfers by gift or at death ramps up quickly, with a top rate of 40%**

Background

Amount Transferred	Transfer Tax
\$0–10,000	18%
\$10,001–20,000	\$1,800 + 20% of amount over \$10,000
\$20,001–40,000	\$3,800 + 22% of amount over \$20,000
\$40,001–60,000	\$8,200 + 24% of amount over \$40,000
\$60,001–80,000	\$13,000 + 26% of amount over \$60,000
\$80,001–100,000	\$18,200 + 28% of amount over \$80,000
\$100,001–150,000	\$23,800 + 30% of amount over \$100,000
\$150,001–250,000	\$38,800 + 32% of amount over \$150,000
\$250,001–500,000	\$70,800 + 34% of amount over \$250,000
\$500,001–750,000	\$155,800 + 37% of amount over \$500,000
\$750,001–1,000,000	\$248,300 + 39% of amount over \$750,000
Over \$1,000,000	\$345,800 + 40% of amount over \$1,000,000

Federal Transfer Tax Schedule

- **Federal estate tax provisions can help forest owners be better stewards and foster family forest enterprises by**
 - **Permitting part or all of a family's assets to pass untaxed from one generation to another, and**
 - **Reducing pressure to liquidate timber or fragment holdings in order to pay federal taxes**

Background



A BAD HEIR DAY

Gary Whitley of Castle Rock, Washington.

- **This talk focuses on the estate planning process**
- **Talk this afternoon will focus on estate planning tools of special interest to family forest owners**
- **Together, the two talks only introduce a complex area of law**
 - **You likely will need professional help to develop a suitable plan**

Background

Why Make an Estate Plan?

- **Every state has a law which designates how the estates of residents who die without a will (intestate) are to be divided among their heirs**
- **But it is one-size-fits-all**
 - **May not suit the characteristics and needs of your particular family**
 - **Likely is more complex than necessary**
 - **Likely is more time-consuming and expensive to implement than necessary**

Why Make an Estate Plan?

- **Developing your own plan allows you to**
 - **Choose your personal representative (executor)**
 - **Provide for the needs of your family, including your spouse, minor children, and/or special needs children**
 - **Provide for the timely transfer of assets**
 - **Ensure that particular assets go to the persons you want to have them**
 - ...

Why Make an Estate Plan?

- **Provide continuity of management for your family forest enterprise**
- **Make charitable bequests**
- **Minimize probate costs**
- **Minimize estate taxes**

Why Make an Estate Plan?

Four Steps in Estate Planning

- 1. Take stock**
- 2. Select your team**
- 3. Develop and initiate your plan**
- 4. Review your plan periodically**

Four Steps in Estate Planning

- **Take stock of all assets in your estate – forestland and others – including their**
 - **Location**
 - **Legal description**
 - **Form of ownership**
 - **Current value – You may be surprised at how much your forestland is worth!**

1. Take stock

- **Also take stock of each of your heirs, including their**
 - **Lifestyle**
 - **Financial needs**
 - **Level of interest in helping manage the forestland**
- **This is best done in conversation with your heirs**
 - **For help on how to initiate and conduct 1-on-1 discussions or family meetings with heirs, see the Forest Service Northeastern Area S&PF website:**
<http://na.fs.fed.us/stewardship/estate/estate.shtml>

1. Take stock

- **You may need as many as 6 members on your team:**
 - **You**
 - **Attorney**
 - **Accountant (CPA)**
 - **Bank Trust Officer**
 - **Chartered Life Underwriter (CLU)**
 - **Forester**

2. Select Your Team

- **You may need as many as 6 members on your team:**
 - **You: Set the overall objectives for the estate plan and ensure they are met, cost-effectively**
 - **Attorney**
 - **Accountant (CPA)**
 - **Bank Trust Officer**
 - **Chartered Life Underwriter (CLU)**
 - **Forester**

2. Select Your Team

- **You may need as many as 6 members on your team:**
 - **You**
 - **Attorney: Coordinates the overall process, works with the other team members to evaluate alternative strategies, provides legal expertise, and draws up the will and other legal documents**
 - **Accountant (CPA)**
 - **Bank Trust Officer**
 - **Chartered Life Underwriter (CLU)**
 - **Forester**

2. Select Your Team

- **You may need as many as 6 members on your team:**
 - **You**
 - **Attorney**
 - **Accountant (CPA): Provides expertise on the interaction of federal and state taxes, and files estate tax returns and other tax documents**
 - **Bank Trust Officer**
 - **Chartered Life Underwriter (CLU)**
 - **Forester**

2. Select Your Team

- **You may need as many as 6 members on your team:**
 - **You**
 - **Attorney**
 - **Accountant (CPA)**
 - **Bank Trust Officer: Provides expertise on how different types of trusts can help meet your objectives, and trust services**
 - **Chartered Life Underwriter (CLU)**
 - **Forester**

2. Select Your Team

- **You may need as many as 6 members on your team:**
 - **You**
 - **Attorney**
 - **Accountant (CPA)**
 - **Bank Trust Officer**
 - **Chartered Life Underwriter (CLU): Provides expertise on how insurance can help meet your objectives, and insurance services**
 - **Forester**

2. Select Your Team

- **You may need as many as 6 members on your team:**
 - **You**
 - **Attorney**
 - **Accountant (CPA)**
 - **Bank Trust Officer**
 - **Chartered Life Underwriter (CLU)**
 - **Forester: Develops and executes the forest management aspects of the estate plan, both for you and for your heirs**

2. Select Your Team

- **It is up to you to oversee development of your estate plan and put the finished plan into action**
If you relinquish oversight to other members of your team, you may end up with a plan that costs more than necessary and doesn't really meet your needs

3. Develop and Initiate Your Plan

- You need to evaluate your plan periodically and make sure it continues to meet your needs
- At a minimum, do this following changes in your
 - Holdings
 - Family situation
 - The tax law

4. Review Your Plan Periodically

Estate Planning Tools

- **General tools available to all taxpayers**
 - **Gifts**
 - **Bequests**
 - **Marital deduction**
 - **Unified exemption for gifts and estates**
 - **Disclaimer**
 - **Other tools: Retained life estate, deferral and extension of estate tax, generation-skipping transfers**

Estate Planning Tools

- Targeted tools available to owners of “working” lands – family forests, farms and ranches
 - Special use valuation
 - Exclusion for land subject to a qualified conservation easement
- Advanced tools and strategies developed by estate planning professionals
 - Forms of organization (FLPs and LLCs)
 - Trusts

Estate Planning Tools

Questions?