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2011 Federal Estate Tax Update

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CORNHUSKER ECONOMICS

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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://agecon.unl.edu/cornhuskereconomics>

University of Nebraska–Lincoln Extension

2011 Federal Estate Tax Update

Estate planning is a very important topic for farm families. In 2001, President Bush signed legislation that reduced the federal estate taxes up until 2010, when the federal estate tax was reduced to zero. If no new federal legislation had been enacted, the Federal Estate Tax Exemption would have fallen from unlimited to \$1 million on January 1, 2011. However, on December 17, 2010 President Obama signed HR 4853, which extended the Bush tax cuts through the end of 2012. This means that from January 1, 2011 through December 31, 2012, the Federal Estate Tax Exemption is \$5 million, but once again falls to \$1 million on January 1, 2013. This means that unless Congress acts before the end of 2012, the Federal Estate Tax Exemption will drop from the current \$5 million to \$1 million, and the maximum estate and gift tax rate will rise from 35 to 55 percent.

Estate Planning Tip. For years 2011 and 2012, couples or individuals with estates valued at up to \$5 million can pass their entire estate tax free to their heirs. After 2012 that amount falls to \$1 million, unless Congress acts before then.

A married couple can effectively double the amount their heirs inherit tax free through estate planning by having both parents split the estate between them and each leave their half of the estate to the kids rather than to each other. A simplified approach would be for Mom and Dad to put the farm into a Limited Liability Company (LLC), and give each parent half of the LLC. When the first parent dies, their half of the LLC would be put in a trust for the children, but with the trust income going to the surviving parent. This first half of the LLC would be eligible for the full

| Market Report | Yr Ago | 4 Wks Ago | 1/28/11 |
|---|-----------|--------------|----------|
| <u>Livestock and Products,</u> | | | |
| <u>Weekly Average</u> | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight..... | \$83.63 | \$106.14 | \$104.00 |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. | 116.60 | 137.58 | 146.75 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. | 97.80 | 123.96 | 126.11 |
| Choice Boxed Beef, 600-750 lb. Carcass. | 141.40 | 161.90 | 173.25 |
| Western Corn Belt Base Hog Price Carcass, Negotiated. | 62.93 | 72.00 | 80.41 |
| Feeder Pigs, National Direct 50 lbs, FOB. | * | * | * |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean. | 71.32 | 77.22 | 87.79 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct. | * | * | 164.75 |
| National Carcass Lamb Cutout, FOB. | 242.58 | 353.99 | 348.73 |
| <u>Crops,</u> | | | |
| <u>Daily Spot Prices</u> | | | |
| Wheat, No. 1, H.W. Imperial, bu. | 3.75 | 7.04 | 7.66 |
| Corn, No. 2, Yellow Omaha, bu. | 3.36 | 5.95 | 6.36 |
| Soybeans, No. 1, Yellow Omaha, bu. | 8.96 | 13.35 | 13.66 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt. | 5.30 | 9.84 | 10.59 |
| Oats, No. 2, Heavy Minneapolis, MN, bu. | 2.28 | 3.97 | 3.96 |
| <u>Feed</u> | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. | 135.00 | 130.00 | 130.00 |
| Alfalfa, Large Rounds, Good Platte Valley, ton. | 87.50 | 72.50 | 72.50 |
| Grass Hay, Large Rounds, Premium Nebraska, ton. | 82.50 | * | * |
| Dried Distillers Grains, 10% Moisture, Nebraska Average. | 107.00 | 187.50 | 195.50 |
| Wet Distillers Grains, 65-70% Moisture, Nebraska Average. | 37.00 | 65.50 | 66.00 |
| *No Market | | | |

Federal Estate Tax Exemption for the year in which the first parent died. When the second parent died, their share of the LLC would go to the kids, the trust would be dissolved, and the kids would own the LLC. The second half of the LLC would also be entitled to the full Federal Estate Tax Exemption for the year in which the second parent died. Many variations of this model are possible, but this is the general idea. Splitting the estate like this can effectively double the amount of the farm that the kids inherit tax free.

Estate planning is an important activity for farm families, and the current uncertainty regarding long-term Federal Estate Tax Exemptions creates significant complications. If you have concerns regarding your estate plan or if you want to develop an

estate plan, contact an attorney experienced in agricultural estate planning.

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| Year | Federal Estate Tax Exemption | Maximum Estate Tax Rate | Tax Free Inheritance Without Estate Planning | Tax Free Inheritance With Estate Planning |
|-------|------------------------------|-------------------------|--|---|
| 2001 | \$675,000 | 55% | \$675,000 | \$1.35 million |
| 2002 | \$1 million | 50% | \$1 million | \$2 million |
| 2003 | \$1 million | 49% | \$1 million | \$2 million |
| 2004 | \$1.5 million | 48% | \$1.5 million | \$3 million |
| 2005 | \$1.5 million | 47% | \$1.5 million | \$3 million |
| 2006 | \$2 million | 46% | \$2 million | \$4 million |
| 2007 | \$2 million | 45% | \$2 million | \$4 million |
| 2008 | \$2 million | 45% | \$2 million | \$4 million |
| 2009 | \$3.5 million | 45% | \$3.5 million | \$7 million |
| 2010 | unlimited | 0% | unlimited | unlimited |
| 2011 | \$5 million | 35% | \$5 million | \$10 million |
| 2012 | \$5 million | 35% | \$5 million | \$10 million |
| 2013+ | \$1 million | 55% | \$1 million | \$2 million |