

# Take a closer look at estate tax law

BY SHEILA MILLER

Last week we looked at the basic definition of estate planning as defined by Webster. In this week's third article in the series, we will study how the Federal government defines estate taxes and how their interpretation can affect farm families.

The federal definition of estate tax states "it is a tax imposed upon the transfer of a decedent's property to beneficiaries. Unlike a State inheritance tax that is imposed upon each beneficiary of the estate and is based on the size of the inheritance and the relationship of the beneficiary to the decedent, the federal estate tax is imposed upon the entire estate, which is primarily liable for its payment."

For a quick review, remember the word decedent refers to the deceased and the first federal estate tax was implemented in 1939.

From that time until 1976, the federal rules and regulations saw little change in over thirty-five years.

But, in 1976's Tax Reform Act and the 1978 Revenue Act, U.S. legislators decided it was time to update the estate tax rules and regulations, and as a result, new guidelines were drawn up.

These rules and regulations were published in a booklet entitled 'A Guide to Federal Estate and Gift Taxation, Publication 448'. It was put together by the Department of Treasury's Internal Revenue Service.

This publication 'clears up' the question of who has to pay the federal inheritance tax, when it must be paid, and the correct procedures for paying.

Before you tackle reading and deciphering the bureaucratic fine print, arm

yourself with a magnifying glass and a dictionary.

To save you some eye strain, basically the rules say that anyone who is a citizen or resident of the U.S. and dies leaving an estate worth over \$161,500 in 1980, or \$175,000 in 1981 and thereafter must, file an estate tax return. This return, Form 706, is required to be submitted to IRS within 9 months from the date of death.

Publication 448 provides the necessary tables to figure out how much an estate owes to the government. It also gives payment procedures, and tells how an individual estate can get time extensions for settling the tax obligations.

Publication 448 would be a handy reference guide for anyone planning to devise a method of handling their estate, but it probably will have to be used in consultation with a Certified Public Accountant and/or your attorney. (These publications are for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington D.C. 20402. The stock number is 048-004-01592-7.)

The government publication points out that an extension of time will be granted to pay the estate taxes if there is a hardship case involving farms or other closely held businesses.

If an extension is granted, tax payments can be made over a ten-year period, during which time the government has a lien against the property. Before the property could be sold, the lien would have to be satisfied.

Whether the estate involves a farm or a closely held business, the amount of the taxation is based on a

percentage of the total appraised value of the decedent's property. It can range from 18 percent to 70 percent for estates worth up to \$10,000 and over \$5,000,000 respectively.

Now that you basically see what's happening with the federal estate taxes, take a deep breath and get ready for another tax that will help to knock the wind out of your sails. Meet the Commonwealth of Pennsylvania's inheritance tax.

In an effort not to miss out on the possible avenue for tax dollars, Pennsylvania

legislators drew up the state's inheritance laws.

Along with the big bite taken out of the estate by Uncle Sam, the Commonwealth tacks on an inheritance tax to the tune of 6 percent for lineal descendants (children, grandchildren) and 15 percent for all others.

The federal government, however, does grant some relief for the estate's heirs in the form of deductions for such things as the decedent's medical and burial costs, charity contributions, debts, attorney and executor fees,

appraisal fees and court costs.

Exclusion, deductions, credit, and exemptions—trying to understand what you can legally claim when settling an estate can start your head spinning and make you think that filing your yearly 1040 Income Tax Form was a breeze.

Richard Denison, manager of the legal services for the Pennsylvania Farmers Association, recalled the first estate tax exemption was given back in 1942, just three years after the federal tax was im-

plemented. He noted the total amount of the credit was \$60,000.

"If you go back even to the 1950's and look at prices," Denison said, "the average farm size was about 90 acres, valued at about \$200 an acre. This meant the land was worth about \$18,000.

"If you include the value of cattle and equipment, and put a price tag of \$40,000 on that, it still totals less than \$60,000 for the gross estate."

"Today, the size of farms has increased. And with inflation, the value of the

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