

Evaluating Your Estate Plan: Iowa Inheritance Tax

Note: This article is a basic overview on Iowa inheritance taxes and is intended to give individuals points to consider as they engage in the estate planning process. Do not consider this article to be exhaustive as the impact of Iowa inheritance taxes will vary with each individual situation. This article is considered educational in nature and should not be considered legal advice. Consult with professional qualified legal and tax professionals who can provide expert advice on specific needs. Also consult with state officials who are familiar with changes in laws and requirements.

Many questions about Iowa inheritance tax can be answered by reference to the Iowa Inheritance Tax Rate Schedule which can be found at the Iowa Department of Revenue website: www.iowa.gov/tax. In short, no Iowa inheritance tax is due under the following circumstances:

- 1) When the net estate of the decedent is less than \$25,000
- 2) For larger estates, on any estate shares left to a surviving spouse or to parents, grandparents, great-grandparents, children, stepchildren, grandchildren, great-grandchildren or other lineal ascendants or descendants
- 3) When estate shares are left to a U.S. charitable, religious, educational or veterans organization

It is most common for Iowa inheritance tax to be due when estate shares are left to non-lineal relatives of the decedent such as brothers, sisters, nieces, nephews, aunts, uncles or cousins. See the Iowa Inheritance Tax Rate Schedule, Form 60-061 (09/06/11).

What is Iowa inheritance tax?

Iowa inheritance tax is a tax paid to the State of Iowa and is based upon a person's (beneficiary or heir) right to receive money or property that was owned by another person (decedent) at the time of death, and is passing from the decedent to the beneficiary or heir. Iowa inheritance tax is generally not due if all estate assets are held solely in joint tenancy with

right of survivorship between husband and wife alone; or all estate assets are held solely in joint tenancy with right of survivorship, and not as tenants in common, solely between the decedent and individuals who are entirely exempt from Iowa inheritance tax; or all assets are passing by a will or a trust to beneficiaries who are a surviving spouse or parents, grandparents, great-grandparents, children (legally adopted children and biological), stepchildren, grandchildren, great-grandchildren or other lineal ascendants or descendants.

General Information

In considering whether Iowa inheritance tax is due, it is important to know who is to receive property and the value of the property. This is because the Iowa inheritance tax is based upon each share of the estate, and the tax is based upon a person's (beneficiary's) right to receive money or property which was owned by the decedent at the date of death. This is different from federal estate tax, which is a tax on the entire amount of property owned by the decedent at the time of death.

Iowa Inheritance Tax Return

An Iowa inheritance tax return includes a list of the property in the decedent's estate and the value of the property. This is referred to as the gross estate. The gross estate includes real estate and tangible personal property located in Iowa, in which the decedent had an interest at the time of death. If the decedent was domiciled in Iowa, all intangible personal

property must also be included (such as real estate contracts, cash, bank accounts, promissory notes, accounts receivable, mortgages, crop rent, cash rent, stock, bonds, employee pensions, profit sharing plans and IRAs). Some types of property may be only partially included in the decedent's estate or not included at all. Examples include insurance payable to a person other than the decedent or the decedent's estate, property owned in joint tenancy, certain gifts, life estates, powers of appointment, qualified terminable interest property and annuities. Some property may not be included in the estate for probate administration purposes. However, the value of the property is included in the estate for inheritance tax purposes. These types of property may include joint tenancy property, gifts made within three years of death, annuities and certain retirement plans, retained life interest, and trusts are not subject to probate administration but are subject to inheritance tax.

Property Valuation

The property listed in the gross estate inventory must be valued. The valuation may be computed in one of three ways. The most common method for tax purposes is market value on the date of death of the decedent. Market value is the price at which the property would change hands between a willing buyer and a willing seller on the date of death. The other two methods include an alternate valuation, which is the market value six months after the date of death of the decedent; or, a special use valuation, but only if this valuation is to be used for federal estate tax purposes.

Liabilities and Expenses

The inheritance tax return also includes a list of liabilities or debts and deductions. When all the property is gathered and valued, the liabilities or debts are deducted in order to compute

the shares of the estate each recipient will receive. Not all liabilities or debts are deductible and may include debts of the decedent owing at the time of death, mortgages or liens securing a debt on Iowa property owned by the decedent, and certain taxes accrued before death. Funeral expenses and expenses incurred in administering the property in the gross estate are deductible which would include attorney and fiduciary fees.

Filing the Return

If the decedent's estate has been probated, the personal representative (executor or administrator) must file the return with the Department. If he or she fails to file the return or if the estate is not probated, the beneficiary must file the return.

When Must an Iowa Inheritance Tax Return be Filed?

There are situations where an Iowa inheritance tax return need not be filed. For estates with decedents dying on or after July 1, 2004, if an estate has no Iowa inheritance tax due and there is no obligation for the estate to file a federal estate tax return (even though real estate is involved) an Iowa inheritance tax return need not be filed if one of the following situations is applicable:

- 1) All estate assets are held solely in joint tenancy with right of survivorship between husband and wife alone; or
 - 2) All estate assets are held solely in joint tenancy with right of survivorship, and not as tenants in common, solely between the decedent and individuals who are entirely exempt from Iowa inheritance tax; or
 - 3) All assets are passing by beneficiary designation pursuant to a trust and are intended to pass the decedent's property at death or through a nonprobate transfer solely to individuals who are statutorily exempt from
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Iowa inheritance tax on shares received from a decedent based on their relationship to the decedent. The entire amount of property, interest in property, and income passing solely to the surviving spouse and to parents, grandparents, great-grandparents and other lineal ascendants, to children including legally adopted children and biological children entitled to inherit under the laws of this state, stepchildren and grandchildren, great-grandchildren and other lineal descendants is exempt from tax; or

- 4) All estate assets are passed by will or intestate succession solely to individuals who are statutorily exempt from Iowa inheritance tax as set forth above in subsection (3). Note, however, that an Iowa inheritance tax return must be filed if estate assets pass to both an individual listed in Iowa Code section 450.9 and that individual's spouse.

If real estate is involved, one of the individuals with an interest in or succeeding to an interest in the real estate is required to file an affidavit in the county in which the real estate is located that (1) sets forth the legal description of real estate and (2) states the fact that an Iowa inheritance tax return is not required.

Computing the Net Estate and Shares

After all the assets in the gross estate are listed, and all allowable deductions from the gross estate are determined, the deductions are subtracted from the total gross estate. The remaining sum is the **net estate**. The net estate is used to determine the value of shares distributed to various beneficiaries. The tax is then calculated on each share based on the amount and the beneficiary's relationship to the decedent.

Payment of Iowa Inheritance Tax

As previously noted, Iowa inheritance tax is a tax on the share going to a beneficiary. The beneficiary is responsible for payment of the inheritance tax. However, the estate's personal representative is responsible to see that the tax is collected and paid. When payment in full has been received by the Iowa Department of Revenue, an inheritance tax clearance will be issued which releases the property from the inheritance tax lien and permits the estate to be closed.

Exemptions From Iowa Inheritance Tax

Iowa inheritance tax law provides that a certain amount of property from the estate can pass to a recipient without being subject to tax. This is called an exemption. The amount of the exemption is based upon the relationship of the recipient or beneficiary to the decedent. According to the Iowa Department of Revenue, these exemptions are described as follows:

- For deaths prior to 7/1/97, there is no inheritance tax on property passing to the surviving spouse from the decedent.
- For deaths on or after 7/1/97, property passing to the surviving spouse is exempt. Property passing to parents, grandparents, great-grandparents and other lineal ascendants is also exempt from inheritance tax. Property passing to children (biological and legally-adopted children), stepchildren, grandchildren, great-grandchildren and other lineal descendants is exempt from inheritance tax. All other beneficiaries are taxed on the entire share passing to them from the estate.
- Any other beneficiary does not receive an exemption and is taxed on the entire share passing from the estate to that person. The rate of tax paid on a recipient's share varies based upon the relationship of the recipient to the decedent.

- The decedent may have left property to various organizations which are charitable or non-charitable. Special tax rates apply to these organizations.
- The first \$500 of the total of all Masses specified in the Will is exempt from tax.
- If all the property of the estate has a value of less than \$25,000, no tax is due.
- Insurance proceeds paid to a named beneficiary are not taxable.
- Currently, annual gifts in the amount of \$12,000 or less are not taxable.
- Annuities purchased under an employee pension plan or retirement plan are not taxable.

Due Date, Extensions, Penalty and Interest

An Iowa inheritance tax return must be filed and any tax due paid on or before the last day of the ninth month after the death of the decedent. An extension of time to file the return and make payment may be requested from the Iowa Department of Revenue, but interest is charged on unpaid taxes which remain due, accruing on a monthly basis. Penalties are assessed for failure to file the return or pay the tax due in time, without an extension. If assets are discovered after completing and filing a return, an amended return must be filed and any additional tax paid.

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