Estate Income Tax Returns

By: Hyatt and Weber

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Following an individual's death, there may be income from a business, rental property, investment account(s) or pension(s) which continues to accumulate. Income received by the decedent before the estate has been settled is referred to as "income in respect of the decedent" ("IRD"). This income is considered an estate asset though it goes on the return of the person actually receiving the income.

Fiduciary Income Tax Return
Income received by the estate before the estate assets are distributed must be reported on a Fiduciary Income Tax Return (Form 1041). When beneficiaries receive their inheritance, the property is claimed by beneficiaries rather than by the estate. Only income received by the estate before distribution is subject to fiduciary income tax.

Minimizing Fiduciary Income Tax
If estate assets are distributed to estate beneficiaries instead of being held in the estate for any length of time, they may not be subject to fiduciary income tax. Property held in a trust is not subject to fiduciary income tax because the property is owned by the trust; ownership does not change following the death of any individual. Properly held in joint tenancy passes by operation of law at death without involving the estate so no fiduciary tax would be due on any such jointly owned property. Planning which helps avoid probate proceedings or other legal procedures which hold up the distribution of estate property is the best way to minimize fiduciary income tax.

Getting Legal Help
An experienced estate planning attorney can help you understand all your options for asset preservation and growth. Experienced Estate Planning Attorney Linda T. Cox can discuss all your options and create a plan with you. Call Ms. Cox at Hyatt & Weber, P.A. today at 410-505-4553.