

Estate Tax

Federal Estate Tax, Gift Tax, and Generation-Skipping Tax Exemptions

The 2018 federal exemption against estate and gift taxes is \$11,200,000 per person. This is an increase over the 2017 exemption, which was \$5,490,000 per person. Estates in excess of this amount are subject to a 40% federal estate tax. The 2018 federal generation-skipping transfer tax exemption was also increased and is now \$11,200,000 per person.

State Estate Tax Exemption

The 2018 Washington State Estate Tax exemption is \$2,193,000 per person. This is an increase over the 2017 exemption, which was \$2,129,000 per person. The \$64,000 exemption increase is an inflation adjustment. Washington estates that are less than this amount do not have to file a tax return. Washington estates that are in excess of this amount must file an estate tax return and are subject to a 10% - 20% Washington State Estate Tax.

Federal Gift Tax Annual Exclusion

The federal annual gift tax exclusion was \$14,000 in 2017 and has increased to \$15,000 in 2018.

Federal and State Tax Summary

The chart below outlines the federal and state exemptions and tax rates for 2014 through 2018.

Year	Federal Estate Tax		Gift Tax			GST Tax		WA State Estate Tax	
	Rate	Exemption	Rate	Exemption	Annual Exclusion	Rate	Exemption	Rate	Exemption
2014	40%	\$5.34M	40%	\$5.34M	\$14,000	40%	\$5.34M	10%-20%	\$2.012M
2015	40%	\$5.43M	40%	\$5.43M	\$14,000	40%	\$5.43M	10%-20%	\$2.054M
2016	40%	\$5.45M	40%	\$5.45M	\$14,000	40%	\$5.45M	10%-20%	\$2.079M
2017	40%	\$5.49M	40%	\$5.49M	\$14,000	40%	\$5.49M	10%-20%	\$2.129M
2018	40%	\$11.2M	40%	\$11.2M	\$15,000	40%	\$11.2M	10%-20%	\$2.193M

Estate Planning

What to Consider When Selecting a Fiduciary

When you create an estate plan, you will designate one or more persons to act for you in the event of your death or incapacity (“fiduciaries”). Generally, these fiduciaries include your Personal Representative, Trustee, your Agent for financial decisions, and your Agent for health care decisions.

Characteristics of a Good Fiduciary

Selecting the proper fiduciary can eliminate potential fights and promote harmony among family members. Rather than naming all of your children as co-fiduciaries or naming them individually in descending age order, we recommend that you consider the characteristics needed for the role before making your choice.

- 1. *Is this person someone that you like and who communicates clearly?*** You and/or your family will be working closely with this person, and he/she will have access to your personal information. Compatibility and communication will be essential traits in a good fiduciary.
- 2. *Where is this person located?*** When decisions need to be made in a timely manner, selecting a fiduciary who lives near you may be beneficial.
- 3. *Do you trust this person to manage your finances?*** If someone does not manage his or her own finances well, that is a red flag. Additionally, you may need someone with special skills if you own and operate a business, or have complex financial assets. The person you select should be comfortable managing your assets, or at the very least, hiring professionals to work with him/her to manage the assets.
- 4. *How old is this person?*** Your fiduciary must be at least 18 to serve in Washington.
- 5. *Is this person assertive and can they handle the pressure?*** Your fiduciary may need to make decisions in stressful and emotionally charged situations. Additionally, not everyone may agree with the fiduciary’s decisions. You should select someone who will keep your goals in mind and who can make difficult decisions under pressure.
- 6. *Is the person willing and able to act?*** Before you make a final decision, talk to the potential fiduciary and make sure that he/she is willing to serve. Often, job pressures, travel schedules, and other circumstances may make it difficult for someone to serve.

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7. *What are this person's strengths and weaknesses?* You may find that some people are best suited to one fiduciary role but you may not want to appoint them for all fiduciary roles (e.g., your child who is a nurse might be best suited as your Health Care Agent, while your child who is a banker might be best suited as your Financial Agent).

Designating More than One Person as Fiduciary

Some people appoint more than one person to serve together in a fiduciary role, such as Co-Agents for Health Care Decisions or Co-Personal Representatives. When selecting co-fiduciaries, you need to specify how decisions will be made. Will you require a majority vote for all decisions? What happens if there is a tie? Can each fiduciary act alone? If they can act alone, what happens if they disagree? What happens if they must act together, but one cannot be reached in the event of a medical emergency? If you select co-fiduciaries, it is important that they can all work together and get along.

Designating a Professional Fiduciary

Many people do not have family members who have the time or the sophistication to serve as a fiduciary. In these situations, selecting a professional fiduciary, such as a bank, trust company, or attorney is a great option. A professional fiduciary will have experience in estate/trust administration and he/she will be a neutral party should any family disputes arise.

What Happens If All My Beneficiaries Die?

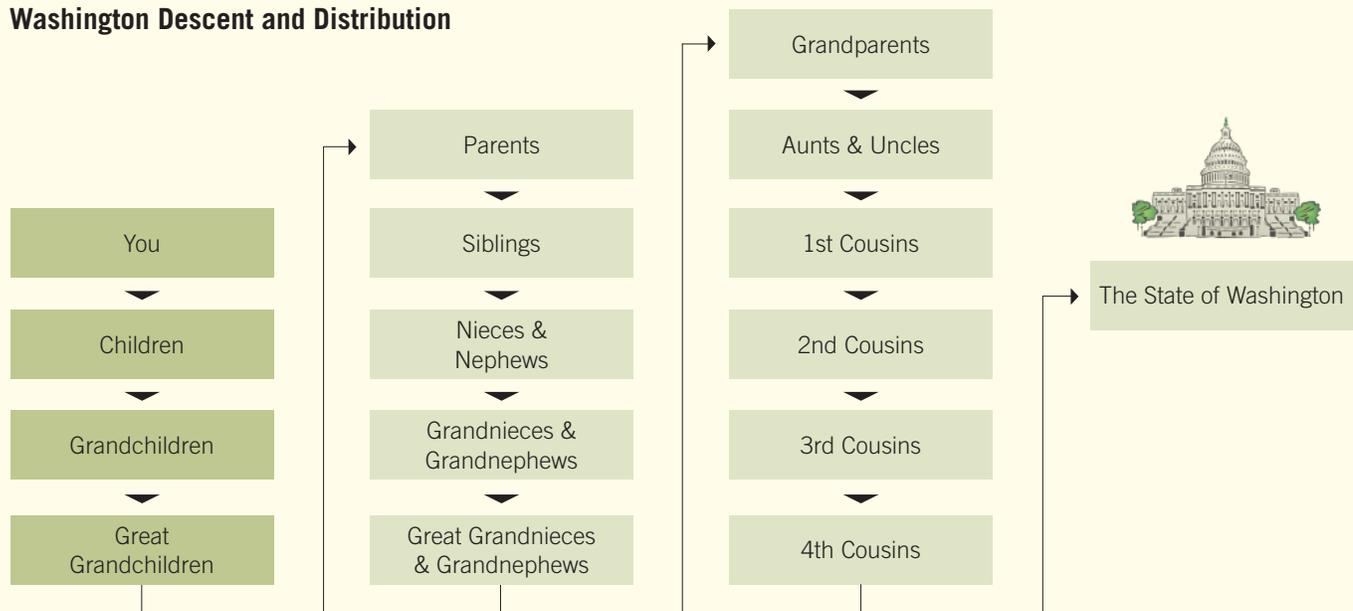
If all of the named beneficiaries in your Will predecease you (or if you die without a Will), your estate is distributed to your closest living heirs.

If you are married: If you are married with children, your heirs are your spouse and children. Your estate is divided between them, with your spouse receiving 100% of the community property and 50% of the separate property, and your children receiving 50% of your separate property. If you are married with no children, your estate is divided between your spouse, who receives 100% of your community property and 75% of your separate property, and your parents (or your siblings if your parents are not living) receiving 25% of your separate property.

If you are not married: If you are not married, your estate is distributed to your heirs, who are determined pursuant to the laws of descent and distribution (illustrated below). For instance, if you die with no spouse or descendants living, your estate is distributed entirely to your parents (or the survivor of them). If both parents are deceased, your estate will be distributed to your siblings, then to nieces and nephews, and then downstream from there.

Choose your own Beneficiaries: The descent and distribution rules are not ideal for many people. With a Will or a Revocable Trust, you can choose how much to leave to your family members, or whether to include friends, charities, or even your pet!

Washington Descent and Distribution



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