

The Tax-Savvy Beneficiary: How and When to Decline an Inheritance

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When most people hear the word “inheritance,” they associate it with a generous gift or even a final thoughtful gesture from a loved one. However, in some cases, declining an inherited asset is the most prudent course of action. Perhaps the inherited asset comes with associated responsibilities, such as real estate or art, or the beneficiary has no interest in the type of asset that was inherited. Tax consequences of the inheritance can also contribute to this decision. If an unwanted inheritance is anticipated from a family member, it might be beneficial to use a qualified disclaimer to reject the bequest. Consequently, the assets go from the estate directly to the next beneficiary in line, bypassing the disinterested party.

Using a qualified disclaimer on some, or all, of the assets could result in tax savings, while redirecting funds to a more appropriate destination. This estate planning tool is designed to benefit the entire family and can be tailored to include only certain assets, or only a portion of a particular asset that would otherwise be received.

Reasons for Using a Disclaimer

Federal estate tax laws are fairly rigid, but a qualified disclaimer offers some unique flexibility to a forward-thinking beneficiary looking to maximize their tax savings. The following details some of the tax and estate planning reasons for individuals and families to utilize this effective planning strategy:

Gift and estate tax savings. This is often cited as the main incentive for using a qualified disclaimer. For starters, the unlimited marital deduction shelters all transfers between spouses from gift and estate tax. If a person's spouse should pass, the surviving spouse will not only inherit all of their assets without facing tax consequences, but electing portability also allows the surviving spouse to leverage the marital couple's combined estate tax exemption. For 2024, the exemption amount is an inflation-adjusted \$13.61 million for individuals and \$27.22 million for married couples. In addition, transfers to nonspouse beneficiaries, such as children and grandchildren, may be covered by the federal gift and estate tax exemption. For these reasons, high-net-worth couples may find that they do not need the money and instead wish to see it passed on without personally incurring any tax consequences or depleting their own estate tax exemption. Additionally, couples who are not married and therefore do not have the cushion of the doubled estate tax exemption may want to avoid the tax on an inheritance as well.

Generation-skipping transfer (GST) tax. Disclaimers may also be useful in planning for the GST tax. This tax applies to most transfers that skip a generation, such as bequests and gifts from a grandparent to a grandchild or comparable transfers through trusts. Like the gift and estate tax exemption, the GST tax exemption is an inflation-adjusted \$13.61 million for individuals and \$27.22 million for married couples for 2024.

If GST tax liability is a concern, you may wish to disclaim an inheritance. For instance, if you disclaim a parent's assets, the parent's exemption can shelter the transfer from GST tax when the inheritance goes directly to your children. The GST tax exemption for your own assets won't be affected.

Charitable deductions. In some cases, a charitable contribution may be structured to provide a life estate, with the remainder going to a charitable organization.

Without the benefit of a charitable remainder trust, an estate will not qualify for a charitable deduction in this instance, but using a disclaimer can provide a deduction because the assets will pass directly to the charity.

Before making a final decision on whether to accept a bequest or use a qualified disclaimer to refuse it, consult with your trusted advisors, or reach out to your Anchin Relationship Partner to learn more.