

In this Issue: Trust and Estate Taxes | April Seminar



## *March Newsletter!*

by *Endy Ukoha-Ajike*



Tax season is here. This month's newsletter addresses a tax topic that is intriguing and confusing to a lot of people who are trustees, executors and beneficiaries of Trusts/Estates. Please read more below and let me know if you have any questions.

~*Endy*

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### **Trust and Estate Taxes**

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#### **How Much Taxes Would My Trust Pay?**

This is the question I get almost all the time when clients come in to consult with us for their Estate Planning or Trust/Estate Administration. The answer is broken up in these parts: a. Nothing OR b. Some \$ (dollars) depending on your circumstances.

#### **Dispelling the Myth/Misinformation:**

While a person is alive and creates a Revocable Living Trust, all the assets in the trust belong to the trust owner. All the trust owner pays is her/his

## **Upcoming Events**

**- April Seminar -  
Your Health Care  
Options in  
Retirement**

Join us at our office for our April Seminar with guest speakers:

- **Ervin Thompson, ChFC-Chartered  
Financial Consultant**
- **Lewis Phillips- Senior  
Financial Advisor at  
Merrill Lynch Wealth  
Management**

Wine and Appetizers Included!  
Free to Attend. Space is Limited.  
Please Register to Reserve your Spot.

**Date:** April 27th, 2017

**Time:** 6:15pm - 8pm  
Doors Open @ 6:15pm  
Presentation @ 6:30pm

**Location:**  
Ukoha-Ajike Law Group Office

regular Personal Income Tax on the income “HE/SHE” earns as an individual. However, when the trust owner passes away the trust becomes “IRREVOCABLE” and becomes a separate entity from the deceased trust “owner” who we also call the Settlor, Trustor or Grantor. The trustee will administer the trust by carrying out the terms of the trust while observing ALL the rules applicable to trusts in the California Probate Code.

**Income Tax of Trusts and Estates:**

“IF” the trust earns any income after the Trustor (owner) is deceased, then the trust will pay income taxes on the income it earns.

Typically a Trust will earn income if it has investments that generate income after the Trustor passes away. Such investments may be an income producing (rental) property which generates rent, stocks and bonds, or other investments.

**What are the Tax Rates for Trusts and Estates?**

I have copied and pasted below directly from IRS Revenue Procedure 2015-53 a chart which shows the tax rates for trusts and estates for 2016. These are the rates that will be paid by trusts which generated income in 2016:

<b>Estates and Trusts</b>	
<i><b>If Taxable Income Is:</b></i>	<i><b>The Tax Is:</b></i>
Not over \$2,550	15% of the taxable income
Over \$2,550 but not over \$5,950	\$382.50 plus <b>25%</b> of the excess over \$2,550
Over \$5,950 but not over \$9,050	\$1,232.50 plus <b>28%</b> of the excess over \$5,950
Over \$9,050 but not over \$12,400	\$2,100.50 plus <b>33%</b> of the excess over \$9,050
Over \$12,400	\$3,206 plus <b>39.6%</b> of the excess over \$12,400

The table above is explained as follows below:

**15% Bracket**

If the trust’s net taxable income is not over \$2,550, the tax rate is 15%.

@ Jack London Square  
70 Washington St, Suite 303  
Oakland, CA 94607

**Register**

**Submit Your Questions**

**Mark Your Calendars!**

Our seminars will now be held on a bi-monthly basis at our cozy office in Jack London Square.

**2017 Seminar Dates**

- Thursday, April 27th
- Thursday, June 22nd
- Thursday, August 24th
- Thursday, October 26th

**Contribute to the Conversation!**

Our goal is to make our seminars as informative and interactive as possible. Please let us know if there is any topic you would like to hear about at an upcoming seminar.

**Submit Your Topic Request**

**Endy's Advice Corner**

### **25% Bracket**

If the trust's net taxable income is over \$2,550, but not more than \$5,950, the tax is \$382.50 plus 25% of the excess over \$2,550.

### **28% Bracket**

If the trust's net taxable income is over \$5,950, but not more than \$9,050, the tax is \$1,232.50 plus 28% of the excess over \$5,950.

### **33% Bracket**

If the trust's net taxable income is over \$9,050, but not more than \$12,400, the tax is \$2,100.50 plus 33% of the excess over \$9,050.

### **39.6% Bracket**

If the trust's net taxable income is over \$12,400, the tax is \$3,206 plus 39.6% of the excess over \$12,400.

IRS adjusts these figures yearly for inflation so they will not change much in 2017.

### **When is the Trust or Estate Tax Return Due?**

Remember we are discussing the INCOME Tax of the Trust or Estate, not ESTATE TAX, which is totally different and not the subject of this newsletter.

It is normal for the IRS to inform the trustee or executor when he/she applies for the tax identification number for the trust/estate, that the income tax of the estate on Form 1041 is due on April 15 of the following year. Well this is not entirely applicable to all Trusts and Estates. Instead the due date for the tax return of the Trust or Estate depends on the month when the Trustor died. However, if the Trustor passed away in January, then April 15 of the following year is when the tax return of the Trust or Estate is due.

*Contact your Estate or Trust attorney to verify the specific date the 1041 return is due. We will be happy to assist you if you call our office. **The chart at the end of this newsletter explains this.***

### **Capital Gains Tax on Trust and Estate**

#### **Investment Assets:**

Directly connected to the income tax of the Trust or



It is important to do some tax planning regarding the income tax of the Trust or Estate so the beneficiaries may keep more of their inheritance, especially if the Trust or Estate is selling, keeping or distributing assets to beneficiaries. Contact me to discuss your particular situation.

Estate is the Capital gains tax paid on any asset sold by the trust or estate. The rate is based on the income tax rate of the trust as shown in the chart above.

If the income tax rate of the trust is 0-25%, then the capital gains tax rate is 0%, or no capital gains tax is due. If the rate is between 25% - 39.6, the rate is 15%. Lastly if the income tax rate is is 39.6, then the capital gains tax rate is 20%.

**What to do?** Seeing how confusing but important the information above is, it is best that you contact a CPA and Estate Planning Attorney when dealing with any of the issues raised above. Enjoy the spring.

### Chart Explaining Due Dates for Income Tax of Trust or Estate:

Month of Death	Year End	Due Date for Estate Income Tax Return
January	December 31	April 15
February	January 31	May 15
March	February 28 (29)	June 15
April	March 31	July 15
May	April 30	August 15
June	May 31	September 15
July	June 30	October 15
August	July 31	November 15
September	August 31	December 15
October	September 30	January 15
November	October 31	February 15
December	November 30	March 15

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**Share the news!**





### **About Endy:**

Endy is an Oakland (Jack London Square) based Tax & Estate Planning Attorney with over 16 years of experience. He has helped countless families throughout California develop individualized estate plans and has administered many estates over that period.



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#### **CONTACT US:**

**Phone:** [510.834.9944](tel:510.834.9944)

**Website:** [www.ukohalaw.com](http://www.ukohalaw.com)

#### **Mailing Address:**

70 Washington St, Suite 303

@ Jack London Square

Oakland, CA 94607

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