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## Understanding Estate and Gift Taxes

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Do the words “estate and gift taxes” raise your blood pressure, even just a little? When meeting with clients, I’ve found that estate and gift taxes are often a source of anxiety – and confusion. Under current law, however, the vast majority of Americans have very little to worry about. Here’s an explanation in plain English.

As a general rule, using the 2015 numbers, you can transfer up to \$5.43 million<sup>1</sup> during your life (as a gift), at your death (through your estate), or a combination of the two, without incurring federal estate or gift taxes. A married couple can transfer twice this much, up to a total of \$10.86 million. To the extent that the total amount transferred exceeds \$5.43 million (\$10.86 million for a couple), the excess is taxed at a rate of 40%.

Chances are, you read that last paragraph and let out a sigh of relief, maybe even a chuckle. “So what about these \$14,000 annual gifts I’ve heard about?” you might be asking. This question affects far more people. Current law permits you to make gifts to an individual totaling \$14,000 or less in a single year without those gifts being counted towards your \$5.43 million exemption. If you’re married, you and your spouse can make gifts to an individual of up to \$28,000 per year. These gifts are not taxable income to the recipient, although the earnings on a gift, if invested, are. The number of recipients of these “annual exclusion” gifts is unlimited; individuals who believe they may transfer more than \$5.43 million (\$10.86 million if married) during their lifetime and/or at their death can use this to their advantage, to bring down the total value of their estate.<sup>2</sup>

In the event that you make gifts to an individual exceeding \$14,000 in any given year (\$28,000 if you and your spouse make the gifts), you will be required to file a gift tax return with the IRS. No tax will be due, however, as a result of the filing; the purpose of filing the return is to record the amount transferred in excess of \$14,000 (\$28,000 if married). The excess is counted toward your lifetime \$5.43 million exemption.

It should be noted that Virginia does not currently have estate or gift taxes. However, there is a small state tax on assets passing through your probate

<sup>1</sup> This number increases a little every year to keep up with inflation.

<sup>2</sup> Keep in mind, of course, that if you plan to apply for Medicaid in the future, gifts like this are subject to a five-year lookback period. However, if you’re gifting for the purpose of minimizing estate and gift taxes, you’re most likely not going to be applying for Medicaid.

## Understanding Estate and Gift Taxes (cont'd)

estate, if valued at more than \$15,000 (10 cents for every \$100, or 0.1%), and localities may impose a probate tax equal to 1/3 of the state probate tax.

Now, if you're concerned that you may transfer more than \$5.43 million total during your life and/or at your death (\$10.86 million if married), there are strategies you should consider to help minimize, or even eliminate, taxes due at your death. An experienced estate planning attorney can walk you through the various trust and gifting options you may want to look at as a way to reduce the value of your estate and taxes paid at your death.



### Chicago's "Cat Man"

**Hook Law Center:** Kit Kat, what can you tell us about the man in Chicago who was called the 'Cat Man?'

**Kit Kat:** Well, the 'Cat Man' of Chicago was a Good Samaritan for cats. I say "was," because he is now deceased. However, before his death in October 2014, Arthur Burrell rescued 51 homeless cats and kittens. Mr. Burrell was only 57 and suffered from pulmonary disease. He began with 2 little kittens, and his efforts resulted in 51 felines being rescued. Early on in this process, he became acquainted with Annette Bellezzo and Kris Badillo, employees with the Humane Society of the US' (HSUS) Pets for Life program. Through that program, he received supplies like flea medicine, money for spaying/neutering, etc.

Mr. Burrell devoted himself to these felines. He named each one, and was quite creative in the names--Sparkle Treadwell and Ooka Nooka, for example. He also kept a notebook about their particular characteristics and medical history. Word of what he was doing spread in the community. This led to his attempt to formalize his efforts and establish a program called Caring About Felines Everywhere (CAFE). The CAFE program was to rescue homeless felines, spay/neuter them, share information about cat care in impoverished areas, help find homes for those strays that could be domesticated, etc. Though he died before CAFE could be implemented, his interest and devotion has inspired others in his community to take better care of their own pets. Let's hope others will carry on where he left off, and that this will be a permanent endeavor.

(Julie Falconer, "A Windy City Wonder," *All Animals*, March/April 2015, p. 12)

### Upcoming Events

- **March 26 and 27, 2015** – The HLC Monthly Seminar Series for **March** is **How to Protect Your Home, Your Assets, & Your Family**. The seminar is scheduled at 10 a.m. on Thursday, March 26, 2015 in HLC's Harbour View office, 5806 Harbour View Blvd, Suffolk, VA OR Friday, March 27, 2015 in HLC's Virginia Beach office, 295 Bendix Road, Virginia Beach, VA. Space is limited!!! To reserve your seat, please call 757-399-7506 and ask for Debbie.
- **August 12, 2015** – Andrew Hook will be speaking to a group at Maryview Hospital in Portsmouth, Virginia.
- **August 21, 2015** – Andrew Hook will be speaking to a group at DePaul Hospital in Norfolk, Virginia.
- **August 27, 2015** – Andrew Hook will be speaking to a group at Mary Immaculate Hospital in Newport News, Virginia.



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