CIRCULAR EC-582 Revised

MARCH 1985

ESTATE INVENTORY AND SETTLEMENT COSTS

Estate planning is a family affair. All members of the family should be involved in determining goals, objectives and methods of transferring property from one generation to another. However, once these factors are agreed upon, planning the actual transfer must be done by the property owner. The first step is to inventory and value the estate.

As an individual in business, whether in town or on the farm, you have a sizeable investment in land, buildings, equipment and inventory. In acquiring this property, you have created an estate which, at the time of death, will be subject to both state and federal estate taxes and other settlement costs.

Federal Legislation and decreasing land values are reducing the impact of estate and gift taxes. However, the need to adequately plan the transfer of property from one generation to the next still remains. If inflation re-accelerates, the tax advantages gained through increased estate and gift deductions could be lost.

If a large portion of the estate consists of fixed assets such as land and buildings, the need for liquidity could present a special problem. Careful estate planning can reduce liquidity needs or provide a means of covering these needs and thereby prevent the forced sale of property built up over a lifetime. It will also insure passing the largest possible estate to the next generation.

PURPOSE OF THIS PUBLICATION

This publication will acquaint you with the types of property included in your estate. It will assist you in placing a value on your estate and determining the settlement costs of various estate plans. Also, by following the steps outlined it is possible to determine the amount of additional liquidity — assets that can be quickly turned into cash — that may be needed to pay necessary settlement and transfer costs.

This form pertains to inventorying the property owned by an individual and should be completed by each property owner in the family. THE FORM IS GENERAL IN NATURE AND SHOULD BE USED ONLY FOR PRELIMINARY PLANNING.

VALUATION METHODS

Property must be valued at its fair market value in the inventory process. However, where real property devoted to farming or other closely held businesses is concerned, we can also use the "current use" method of valuation. While using this method can mean substantial tax savings, a number of qualifications have to be met both before and after the death of the owner. See your attorney for particulars.

The inventory process and estate tax calculations become more complicated if gifts of property have been made. NDSU Extension Circular EC-604, "Estate Planning Considerations", provides a general explanation of how the new annual gift exclusion, unified tax credit, and unlimited marital deduction for gifts affects the process. Also, contact your attorney for additional information on how these factors affect your individual situation.

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KEEP THIS FORM UP-TO-DATE

DATE OF INVENTORY ______________________

STEP 1. DETERMINE WHAT YOU OWN

A. LIQUID ASSETS[1]

1. FACE VALUE OF LIFE INSURANCE POLICIES YOU OWN. NOTE: YOU OWN THE POLICY IF YOU HAVE THE POWER TO CHANGE THE BENEFICIARY, CASH IT IN, SELECT THE SETTLEMENT METHOD, OR BORROW AGAINST THE POLICY. $ ________
2. CHECKING ACCOUNT ________
3. SAVINGS ACCOUNT ________
4. SAVINGS BOND ________
5. OTHER BONDS ________
6. STOCKS, MUTUAL FUNDS ________
7. MONEY OWED TO YOU BY OTHERS ________
8. DEATH BENEFIT OF RETIREMENT PLANS ________
9. OTHER ______________ ________

TOTAL LIQUID ASSETS → $ ____ (A)

B. PERSONAL PROPERTY[1]

1. HOUSEHOLD GOODS $ ________
2. SILVER AND JEWELRY ________
3. ART OBJECTS ________
4. ANTIQUES ________
5. OTHER ______________ ________
6. OTHER ______________ ________

TOTAL PERSONAL PROPERTY → $ ____ (B)

C. BUSINESS ASSETS[1]

1. MACHINERY $ ________
2. ______________ ________
3. EQUIPMENT ________
4. CAR ________
5. ______________ ________
6. TRUCK ________
7. ______________ ________
8. INVENTORY (CROPS) ________
9. INVENTORY (LIVESTOCK) ________
10. INVENTORY (OTHER) ________
11. OTHER ______________ ________
12. OTHER ______________ ________

TOTAL BUSINESS ASSETS → $ ____ (C)

D. REAL ESTATE[1]

1. LAND______________ $ ________
2. LAND______________ ________
3. BUILDINGS ________
4. OTHER ______________ ________
5. OTHER ______________ ________

TOTAL REAL ESTATE → $ ____ (D)

E. TOTAL ASSETS (ITEMS A + B + C + D) $ ____ (E)

[1]How you own property, especially with someone else, affects what portion of that property to include in your estate. Check the section on Property Inventory and Ownership in North Dakota Extension Circular EC-604 which outlines inventory procedures for property owned in different ways.

STEP II. DETERMINE WHAT YOU OWE OTHERS

F. NOTES AND MORTGAGES

1. REAL ESTATE MORTGAGES $ __________
2. ______________________ __________
3. CHATTEL MORTGAGES __________
4. ______________________ __________
5. CONTRACTS __________
6. ______________________ __________
7. UNSECURED NOTES __________
8. OTHER ______________ __________

TOTAL DEBTS → $ __________ (F)

STEP III. DETERMINE FEDERAL NET TAXABLE ESTATE

G. TOTAL PROPERTY CONTROLLED (ITEM E) $ __________ (G)

H. MISCELLANEOUS DEDUCTIONS

1. NOTES AND MORTGAGES (ITEM F) $ __________
2. ESTATE SETTLEMENT COSTS. TAKE 4 PERCENT OF ITEM G. THIS GENERALLY COVERS FUNERAL EXPENSES, COST OF LAST ILLNESS, LAWYER FEES, UNPAID INCOME TAX, COURT COSTS AND OTHER ADMINISTRATIVE COSTS. $ __________

TOTAL MISCELLANEOUS DEDUCTIONS → $ __________ (H)

I. ADJUSTED GROSS ESTATE (G MINUS H) $ __________ (I)

J. MARITAL DEDUCTION — ANY PORTION OF THE ESTATE GOING TO THE SURVIVING SPOUSE IN SUCH A MANNER THAT THE PROPERTY WILL BE INCLUDED IN THE SURVIVING SPOUSE'S ESTATE. $ __________ (J)

K. FEDERAL NET TAXABLE ESTATE (I MINUS J) $ __________ (K)

STEP IV. COMPUTE FEDERAL ESTATE TAX

L. TENTATIVE FEDERAL ESTATE TAX. USE ITEM K TO FIND THE APPROPRIATE TAX FROM SCHEDULE 1. $ __________ (L)

SCHEDULE 1. FEDERAL ESTATE & GIFT TAX RATES

VALUE OF ASSETS SUBJECT TO TAX	ESTATE TAX	RATE ON NEXT BRACKET
UNDER $10,000	18%	—
10,000	$ 1,800	20%
20,000	3,800	22
40,000	8,200	24
60,000	13,000	26
80,000	18,200	28
100,000	23,800	30
150,000	38,800	32
250,000	70,800	34
500,000	155,800	37
750,000	248,300	39
1,000,000	345,800	41
1,250,000	448,300	43
1,500,000	555,800	45
2,000,000	780,800	49
2,500,000	1,025,800	50
3,000,000	1,290,800	55 2/

2/ The maximum rate after 1987 will be 50 percent for estates exceeding $2,500,000.

M. FEDERAL TAX CREDITS

1. Unified Tax Credit (See below) $ __________

1985	$121,800
1986	155,800
1987 & after	192,800

2. CREDIT FOR STATE ESTATE TAX. WORK OUT STEP V FOR STATE ESTATE TAX. ITEM P IS THE CREDIT ALLOWED. $ __________

TOTAL FEDERAL TAX CREDITS → $ __________ (M)

N. FEDERAL ESTATE TAX DUE (L MINUS M) $ __________ (N)

STEP V. COMPUTE NORTH DAKOTA ESTATE TAX

O. FEDERAL NET TAXABLE ESTATE (ITEM K) $ ________ (O)

P. NORTH DAKOTA ESTATE TAX DUE. USE ITEM O TO FIND THE APPROPRIATE TAX FROM SCHEDULE 3. $ ________ (P)

SCHEDULE 3. NORTH DAKOTA ESTATE TAX AND FEDERAL CREDIT

VALUE OF TAXABLE ESTATE	TAX ON COLUMN 1	RATE ON NEXT BRACKET
UNDER $100,000	0	NONE
$ 100,000	0	0.8
150,000	400	1.6
200,000	1,200	2.4
300,000	3,600	3.2
500,000	10,000	4.0
700,000	18,000	4.8
900,000	27,600	5.6
1,100,000	38,800	6.4
1,600,000	70,800	7.2
2,100,000	106,800	8.0
2,600,000	146,800	8.8
3,100,000	190,800	9.6
3,600,000	238,800	10.4
4,100,000	290,800	11.2

STEP VI. COMPUTE LIQUIDITY REQUIREMENTS

Q. ESTATE CLEARANCE FUND NEEDED

1. TOTAL FEDERAL AND STATE ESTATE TAXES DUE (ITEM N PLUS P) $ ________
2. ESTATE SETTLEMENT COSTS (ITEM H2)
   NOTE: THE SETTLEMENT COSTS ARE ADDED BACK IN AT THIS POINT BECAUSE THEY HAVE TO BE PAID WHEN THE ESTATE IS SETTLED. $ ________
3. UNPAID MORTGAGES AND OTHER INSTALLMENT AND LONG-TERM OBLIGATIONS (ITEM H1).
   NOTE: OMIT IF TERMS OF THE WILL DICTATE THESE DEBTS WILL BE PAID BY THE HEIRS. $ ________

TOTAL CLEARANCE FUND NEEDED → $ ________ (Q)

R. AVAILABLE LIQUID ASSETS (ITEM A) $ ________ (R)

S. ADDITIONAL LIQUIDITY NEEDED (Q MINUS R) $ ________ (S)

PLANNING FOR LIQUIDITY

Planning for the eventual payment of estate settlement costs and estate taxes is a must. If it's planned that the business continue to operate after the death of the owners, loss of assets used to pay necessary costs and taxes could create a debt problem or lead to a reduction in the size of the estate as part is sold to create needed liquidity.

Liquidity to meet estate settlement costs can be achieved in a number of ways. Pre-death funding possibilities include life insurance, accumulating savings, and development of investment programs such as Keogh (HR10) or IRA Plans. The option also exists of plowing all available capital into the business knowing that liquidity would have to be squeezed from the business after death.

Also keep in mind that pre-death gifting, sale of farm property, and structuring of property ownership before death could reduce the need for liquidity. These same factors could influence the selection of alternatives used to provide any needed liquidity.

Post-death possibilities include the 15-year option for installment payment of part of the federal estate obligation. If this plan looks promising, make sure the pre-death requirements are met and that heirs are fully aware of post-death requirements such as shifts in lease arrangements or sale of the property that could affect eligibility. Other post-death possibilities include extensions of time for payment of federal estate tax and redemption of stock after death if the business is organized as a corporation.

If liquidity is needed, carefully evaluate each possibility and select the alternative that best meets your future needs under your present financial situation.

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