

# DO I PAY OKLAHOMA TAXES WHEN SOMEONE LEAVES ME MONEY?

*You Are Not Required to Report an Inheritance as Income for Income Tax Purposes, But There Are Transfer Taxes that Can Be Applicable*



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There are taxes on asset transfers in the United States on the federal level, and in some cases, on the state level. It is natural to wonder if you will be required to pay taxes when you receive an inheritance. The answer to this question is multifaceted, because there are a number of different forms of taxation that can enter the picture.

In this paper we will look at these levies and provide some clarity.

## **INCOME TAXES**

When you receive income of any kind, generally speaking, you must report the income when you are filing your annual income tax returns. (We talk about returns in the plural because there is the federal income tax, and most states impose a state-level income tax.)



If you receive an inheritance, you do not have to report the income when you file your returns. However, if you inherit assets that are appreciable, the gains are potentially taxable.

## **FEDERAL ESTATE TAX**

There is a federal estate tax that high net worth families must address. In 2014, the amount of the federal estate tax credit or exclusion is \$5.34 million. This is the amount that can be transferred tax-free. If the value of your estate does not exceed this amount, your family will not be faced with estate tax exposure.

An estate tax is levied on the entirety of an estate in question. If you were receiving an inheritance from an estate that was subject to the estate tax, you would not personally be taxed in a direct manner.

However, if you are receiving a percentage of the whole, that percentage would be reduced if the estate tax was applied to the entirety of the taxable portion of the estate. So in essence, you would be paying a tax on your inheritance.

## **STATE-LEVEL ESTATE TAX**

There are some states in the union that levy a state-level estate tax. As a result, it is possible to be exposed to the federal estate tax, and a state estate tax. Since the exclusions are generally lower on the state level, it is also possible to be exposed to the state death tax but exempt from the federal estate tax.

Our firm practices in Oklahoma, Kansas and Missouri. There is no state-level estate tax in these states at the present time, but each of them imposed a state-level estate tax through 2009.

## **INHERITANCE TAX**

An inheritance tax and an estate tax are two different types of taxes, though many people assume they are the same. When an inheritance tax is levied, it is imposed on the asset transfers to each of the inheritors. As mentioned in the previous section, and estate tax is levied on the whole.



There is no inheritance tax on the federal level. There are a handful of states that have state-level inheritance taxes. Oklahoma, Kansas and Missouri are not among them.

For your information, there are actually two states that impose both a state-level inheritance tax and a state-level estate tax. These states are New Jersey and Maryland.

It should be noted that very close relatives such as spouses, parents, and children are typically exempt from inheritance taxes in the states that impose this type of tax.

## **TAX EFFICIENCY STRATEGIES**

If you find that transfer taxes are a factor for you and your family, you should be aware that there are steps that can be taken to mitigate exposure. Taxes that you



may face as an inheritor can be minimized if the benefactor employs tax efficiency strategies.

When it comes to estate taxes, there are various different irrevocable trusts that can provide tax

efficiency.

In addition to the estate tax, there is a gift tax to prevent people from giving lifetime gifts to avoid the estate tax. However, there is a \$14,000 per year, per person federal gift tax exclusion. One can give gifts to any number of recipients totaling as much as \$14,000 per person each year free of taxation.

The utilization of this gift tax exclusion can be part of a tax efficiency strategy. You can give direct gifts, but the exclusion can also be used to fund irrevocable trusts on an incremental basis. It can also be used to distribute tax-free shares in a family limited partnership.

## CONCLUSION

You are not required to report an inheritance as income for income tax purposes, but there are transfer taxes that can be applicable. The federal estate tax is applicable everywhere in the United States, and there are states that levy state-level death taxes.

To be properly prepared, you should know where you stand with regard to taxes on asset transfers. If you consult with a licensed estate planning attorney, you can explain your situation, ask any questions you may have, and work with your attorney to mitigate your exposure if necessary.

## REFERENCES

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## About the Author

### Larry Parman



After helping his own family deal with a lengthy probate and a battle with the IRS following his father's death in a farm accident, Larry made a decision to help families create effective estate plans designed to reduce taxes, and minimize legal interference with the transfer of assets to one's heirs, and protect his clients' assets from predators and creditors. Following a dozen years in the investment banking and financial services business, in the mid-1980s Mr. Parman formed a law firm that gives families the peace of mind that comes from having created a premier estate and financial plan.

After forming his law firm in 1984, he offered a series of public and private seminars to inform the public about using a Living Trust as the foundation of a family's estate plan. Today, Parman&Easterday is one of the leading business and estate planning law firms in the Midwest. The firm's primary focus is on business and estate planning, elder law, asset protection, and providing effective estate planning solutions for clients. Today, the firm's premier estate plan design is referred to as a Legacy Wealth Plan.

Mr. Parman is a frequent guest on the radio and can be seen on television talk shows explaining the importance of proper estate planning. Prosperity Productions selected Mr. Parman as a featured speaker in a nationally-recognized educational video on Living Trusts. He is the author of numerous published articles on financial and estate planning matters and the co-author of two books, *Estate Planning Basics: A Crash Course in Safeguarding Your Legacy* and *Guiding Those Left Behind in Oklahoma: Settling the Affairs of Your Loved Ones*.

Mr. Parman is a member and Fellow of the American Academy of Estate Planning Attorneys. He is also a member of the Oklahoma and Missouri Bar Associations, the American Bar Association, and the Oklahoma City Estate Planning Council.



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