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What do the rich own?

The IRS has released a report of the 2020 federal estate tax filings. There were 3,441 estate tax returns filed that year, reporting some \$122 billion in assets. However, only 1,275 of those estates were taxable, thanks largely to the unlimited marital and charitable deductions! Of the 2,166 nontaxable estates, 1,523 were less than \$20 million. Many of these were likely filed to secure the Deceased Spouse's Unused Exemption Amount, an election that may only be made on a timely filed estate tax return. Net estate tax collections came to \$9.3 billion.

As one might expect, publicly traded stocks were the largest asset category of the taxable estates, at \$13.7 billion. In second position was closely held stock, \$10 billion. Personal residences came in at \$1.69 billion. Perhaps surprisingly, the taxable estates reported \$3 billion worth of art, a figure larger than the combined value of Treasury bonds, corporate bonds, bond funds, and net life insurance! Details of the asset breakdown are shown in the chart at right.

Estate planners have long recommended making lifetime gifts to reduce the eventual sting of estate taxes. Up to \$16,000 may be given to donees in 2022 without the need for even a gift tax return filing, under the annual gift tax exclusion. Larger gifts, such as transfers to irrevocable trusts, will reduce the amount of transfer tax credit at death, but they save overall taxes in two ways. First, they “freeze” the value of the gifted assets, and second, they are taxed on a tax-exclusive basis. With the federal estate tax, the tax applies to the tax itself as well as to what beneficiaries receive.

The advice to make substantial lifetime gifts has been heeded by those with sufficient assets to worry about federal estate taxes, according to the report. The taxable estates, with assets of \$63.5 billion, reported total lifetime transfers of \$24.3 billion.

Composition of 2020 taxable estates

Category	Billions of dollars
Personal residence	1.69
Other real estate	3.38
Real estate partnerships	2.71
Closely held stock	10.0
Publicly traded stock	13.7
State and local bonds	4.2
Federal bonds	0.9
Corporate and foreign bonds	0.6
Bond funds	0.2
Other mutual funds	0.2
Unallocated investments	0.7
Cash	3.5
Net life insurance	0.3
Farm assets	0.8
Private equity	0.8
Other limited partnerships	3.1
Other noncorporate business assets	8.9
Mortgages and notes	2.2
Retirement assets	1.3
Depletables/intangibles	0.2
Art	3.0
Other assets	0.6

Source: IRS, November 2021

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