5 good reasons to turn down an inheritance

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You may use a qualified disclaimer to refuse a bequest from a loved one. Doing so will cause an asset to bypass your estate and go to the next beneficiary in line. What are the reasons you'd take this action? Here are five reasons:

1. Gift and estate tax savings. This is often cited as the main incentive for using a qualified disclaimer. For starters, the unlimited marital deduction shelters all transfers between spouses from gift and estate tax. In addition, transfers to nonspouse beneficiaries, such as your children and grandchildren, may be covered by the gift and estate tax exemption.

Currently, the exemption can shelter a generous $11.58 million in assets for 2020. By maximizing portability of any unused exemption amount, a married couple can effectively pass up to $23.16 million in 2020 to their heirs free of gift and estate taxes.

However, despite these lofty amounts, wealthier individuals, including those who aren't married and can't benefit from the unlimited marital deduction or portability, still might have estate tax liability concerns. By using a disclaimer, you ensure that the exemption won't be further eroded by the inherited amount. Assuming you don't need the money, shifting the funds to the younger generation without it ever touching your hands can save gift and estate tax for the family as a whole.

2. Generation-skipping transfer ("GST") tax. Disclaimers may also be useful in planning for the GST tax. This tax applies to most transfers that skip a generation, such as bequests and gifts from a grandparent to a grandchild or comparable transfers through trusts. Like the gift and estate tax exemption, the GST tax exemption is $11.58 million for 2020.

If GST tax liability is a concern, you may wish to disclaim an inheritance. For instance, if you disclaim a parent's assets, the parent's exemption can shelter the transfer from the GST tax when the inheritance goes directly to your children. The GST tax exemption for your own assets won't be affected.

3. Family businesses. A disclaimer may also be used as a means for passing a family-owned business to the younger generation. By disclaiming an interest in the business, you may be able to position stock ownership to your family's benefit.

4. Creditor protection. Any inheritance you receive would immediately be subject to creditors' claims. It might be possible to avoid dire results by using a disclaimer to protect these assets. However, state laws and federal bankruptcy laws may defeat or hinder this goal. Consult with your estate planning advisor about your specific situation.

5. Charitable deductions. In some cases, a charitable contribution may be structured to provide a life estate, with the remainder going to a charitable organization. Without the benefit of a charitable remainder trust, an estate won't qualify for a charitable deduction in this instance, but using a disclaimer can provide a deduction because the assets will pass directly to the charity.

Qualified disclaimers are subject to strict rules and deadlines. Before you make a final decision on whether to accept a bequest or use a qualified disclaimer to refuse it, please contact us for guidance.

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