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EDITORIAL / OPINION

Viewpoint: Why soaring Mass. home values may carry an estate-tax surprise

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In many circles, it's an article of faith that the estate tax — or in some states, the inheritance tax — is one that the heirs of savvy, affluent people rarely pay because of their skillful use of trusts, charitable donations, tax-advantaged gifts, and other tax-minimization strategies. In fact, in Massachusetts, data from the state Department of Revenue (DOR) show that estate tax collections have nearly doubled, jumping from \$340.9 million in fiscal 2015 to \$601.3 million in fiscal 2019, the most recent data available. In recent years, between 4,000 and 5,000 estate-tax returns have been filed annually with the DOR.

With the steady escalation in housing prices, many Massachusetts residents



who consider themselves far from affluent may find that their heirs could be facing unexpected and large estate-tax bills if they pass on a home to their children or grandchildren.

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That's because Massachusetts has one of the most aggressive estate taxes among the 50 states, applying to all estates over \$1 million, with progressive tax rates that rapidly rise to a 16 percent rate on estates over \$10 million.

Notably, the Massachusetts estate tax applies to every dollar of wealth in the estate (with some allowable deductions). If you own a house or condominium that's climbed in value to over \$1 million, which is now common in many Boston neighborhoods and suburbs, heirs who inherit your home could be liable for tens of thousands of dollars in estate tax unless you take action.

As the CEO of a Boston financial planning and investment management firm serving high-net-worth individuals, families and foundations, I remain scrupulously agnostic about the politics of the estate tax. But we should pay attention to the DOR data on how many estates are paying the tax in Massachusetts, and how rapidly estate-tax collections have been growing. I think it's important for more people to understand that it's not just a tax that "the rich" will pay, but a tax that — especially because of housing values — more people who consider themselves solidly middle class will encounter as well.

Many successful and materially fortunate people in Massachusetts, and their heirs, may have no objection to their estates being taxed. For others, though, it may be a surprise--and not a welcome one. We've seen many cases in which, for heirs inheriting a home that required a lot of work, the estate tax proved to be the factor that forced them to sell the home their parents or grandparents hoped would remain for future generations.

If you're a Massachusetts resident with wealth, including your home, approaching \$1 million or more, I'd encourage you to think it over and discuss it with your accountant, estate planning attorney, or financial advisor. Consider questions such as: How much of my estate am I comfortable with my heirs not receiving because it's

been left liable to state estate and inheritance tax? How big a tax bill might they inherit along with the real estate I want to leave them? Does my remaining estate have enough liquidity to pay the tax without forcing an immediate sale of the home?

Depending on what you decide, you'll find an abundance of approved, legal, and ethical strategies for you and your professional advisors to consider and act on sooner rather than later in order to take control of the amount of estate tax your heirs may have to pay one day.

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