

# The Blitz

April 2019

Information on Tax and Estate Planning from the  
Masonic Charities of the Grand Lodge of Pennsylvania



## The Pennsylvania Inheritance Tax Do I really want to die in PA?

**Question:** Bill, who is a frequent attendee of my receptions in New Bern, N.C., and an avid Steelers fan, called to ask me if the Pennsylvania Inheritance Tax would affect him if he moved to the Masonic Village at Elizabethtown. He has been a resident of North Carolina since 2005, but is getting up in years and prefers to live in a cottage close to his relatives in Pennsylvania. I told him that unless he continues to spend the bulk of his time living at his home in New Bern, he will be considered a resident of Pennsylvania, and upon his passing, most of his assets, other than his house in New Bern, would be subject to this dreaded tax. Bill wanted me to give him an overview of the tax and how it might affect him. He is widowed but has one son, John, who has never been married, and a nephew, Paul, who lives in Pittsburgh. He also wants to provide for his lodge in Altoona and the Masonic Children's Home. With this in mind, I gave Bill the news he didn't want to hear so he could make an informed decision on whether to move back to Pennsylvania.

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**Answer: Yes.** Pennsylvania is one of the few states left that taxes assets of its residents at death, and there is little exemption from the tax. Still, for those with little choice but to stay in Pennsylvania or who desire to stay here for various other reasons, understanding the basics of the tax can help you make the right decisions to limit losses. Let's go over the basics I discussed with Bill.

## Residency

Generally, whether one maintains his or her domicile in Pennsylvania is the determining factor for being subject to the Pennsylvania Inheritance Tax. Domicile is the place where a person maintains permanent abode and intends to return. There are many items which factor into determining domicile, but the two most important are: (1) which is the one place the decedent had the greatest connection to at the time of death; and (2) which place did the decedent intend to be his or her domicile. For a list of factors considered in determining residency for income tax purposes (which is not the same as inheritance tax purposes, but very similar), you can get more information from the Pennsylvania Department of Revenue brochure "Determining Residency for PA Personal Income Tax Purposes" by contacting the Department of Revenue at 717-787-8201 or going to [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

Since Bill was planning to sell his home in New Bern and move to a cottage at the Masonic Village at Elizabethtown, it was quite clear that his intended residence and domicile would be Pennsylvania; therefore, his estate would be subject to the state's inheritance tax.

## Property subject to Inheritance Tax

All real estate and tangible personal property, such as cash, oil and gas rights, autos, furniture, antiques and jewelry located in Pennsylvania at the time of the decedent's death, is taxable. All intangible property owned by the decedent, such as stocks, bonds, bank accounts, loans and IRAs, no matter where located, is taxable. Jointly-held property with right of survivorship, except between spouses, is taxable based on the decedent's interest in the

property, which is determined by dividing the value of the joint property by the number of joint owners at the time of the decedent's death. But wait - there is more. Joint accounts set up as a matter of convenience with the decedent's name on it are subject to the tax. And even WORSE: If the decedent creates a joint account within one year of his death, then the entire account is taxed in the decedent's estate, less \$3,000. This is called the "anticipation of death" rule and is designed to prevent someone from getting rid of his or her assets just before death in order to avoid the tax. IRAs are subject to inheritance tax if the decedent was 59½ or older at the time of death.

Bill, age 81, confided that he has three IRAs totaling \$1 million, and he just put his son on his brokerage account worth around \$500,000. He has his home in New Bern worth around \$300,000. He has a Super Bowl football signed by Big Ben and a signed Le'Veon Bell football from a Steelers game. The former was appraised at \$10,000, and the latter was not worth appraising since it is probably worthless now. The rest is just plain furniture and other memorabilia. Therefore, everything Bill owns is taxable except for the house and its contents in New Bern and the joint brokerage account, which is only 50 percent taxable now that his son is co-owner (provided Bill lives at least a year from when he made John a co-owner of the account).

## What are the tax rates?

### The rates are as follows:

- 0 percent on transfers to a surviving spouse or to a parent from a child aged 21 or younger;
- 4.5 percent on transfers to direct descendants and lineal heirs;
- 12 percent on transfers to siblings; and
- 15 percent on transfers to other heirs and organizations, except exempt organizations.

The definition for "direct descendants" includes parents' natural born children and their descendants, adopted children, adopted descendants and step-descendants. The definition for "lineal heirs" includes grandparents, parents

and their children. "Children" includes natural born, adopted and step-children. Further information on the PA Inheritance Tax Law can be found in the PA Department of Revenue brochure "Pennsylvania Inheritance Tax & Safe Deposit Boxes," which is available at the same contacts for the Department of Revenue previously referred to.

Bill said his son is the beneficiary of two of his IRAs worth around \$700,000, and his \$300,000 IRA is going to the Masonic Children's Home. The joint account worth \$500,000 goes to his son. His Will provides that his lodge is to receive a \$10,000 bequest; his nephew, Paul, gets a \$100,000 bequest; the Le'Veon Bell football goes to his friend, Joe, since he is a Ravens fan; and the rest of the estate, valued at around \$200,000, goes to his son.

That means his estate has to pay an inheritance tax of 4½ percent on the \$700,000 IRAs going to John and the amount John receives from the joint account and under the Will since he is a direct descendant of Bill. The \$100,000 bequest going to Paul is taxed at 15 percent since he is not a lineal heir, direct descendant or sibling of Bill. The \$100,000 gift to the Masonic Children's Home is not taxable since it is an exempt organization. The

\$10,000 gift to his lodge is subject to a 15 percent tax because it is not an exempt organization, but a fraternal organization. The football is probably worth \$30, so it is taxed at 15 percent. The estimated inheritance tax paid by Bill's estate, should he die today, would be around \$79,500. Ouch! That's a lot of taxes. So, what is Bill to do?

## Conclusion

Although Bill wasn't thrilled about his estate having to pay the inheritance tax if he moved back to Pennsylvania, he decided that it was a small price to pay in return for the security of a caring community such as Masonic Village and being close to family and friends. He has enjoyed his retirement years in New Bern, but agreed it is time to move on to the next stage in his life at Masonic Village while he can enjoy being part of the community there. I put Bill in touch with a sales representative, who arranged for Bill to move into a cottage at Elizabethtown. He also decided to part with his footballs. He gave the Big Ben football to the Masonic Children's Home, so it could be displayed alongside the Nick Foles Eagles football at the campus, and he gave the Le'Veon Bell football to the local animal shelter for use since his Ravens friend said he didn't want it.



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As Chief Gift Planning Officer of the Masonic Villages in Pennsylvania, Alvin H. Blitz, Esq., serves the Masonic Charities of the R.W. Grand Lodge of Pennsylvania, which consists of the Masonic Villages, the Masonic Children's Home, the Pennsylvania Masonic Youth Foundation, the Masonic Library and Museum of Pennsylvania and the Masonic Charities Fund. Attorney Blitz holds a Bachelor of Science degree from the University of Scranton, a Master of Arts degree from Fairleigh Dickinson University, and a Juris Doctorate from Dickinson School of Law. He has given estate planning seminars throughout the country and is a member of Carlisle Lodge No. 260, Carlisle, Pa.

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## Ask Alvin In Person!

Catch up with Alvin in person to learn updates on the Masonic Charities of the Grand Lodge of Pennsylvania and more about tax and estate planning.

April 2 - 8, Silicon Valley, CA

April 22 - 23, Raleigh, NC

May 8 - 12, Portland, ME

May 15 - 18, Tampa, FL

June 2 - 10, Los Angeles, CA  
& Las Vegas, NV

June 19 - 22, Portland, OR

July 7 - 10 Charleston, SC  
& Savannah, GA

July 23 - 27 Phoenix, AZ

