

## **INHERITANCE TAX IMPLICATIONS FOR JOINTLY HELD ACCOUNTS**

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**Question:** We added our daughter's name to our checking account so she would be able to handle things on our behalf if we were unable to do so. My husband passed away this year and my daughter had to pay inheritance tax on a portion of the account. This does not seem fair. Please explain.

**Answer:** Many people are surprised when they receive a tax bill on a jointly held account. By adding your daughter's name to your account you made her a "joint owner" of the account. When your husband passed away, his share (1/3) of the account was divided between you and your daughter as the surviving joint owners. The fact that your daughter did not use or receive any of the money from that account does not make a difference. The Pennsylvania State Department of Revenue considers her to have been the recipient of one-half of your husband's share of the account and therefore she is taxed accordingly. The inheritance tax rate for children is 4.5%. This tax will not be waived in situations such as yours, where the joint owner was added to the account only for convenience purposes. If you continue to keep the account joint with you and your daughter, if your daughter predeceases you, you will have to pay inheritance tax on her half of the account. You will basically be paying inheritance tax on your own money.

There are other disadvantages to holding assets jointly with your daughter. If she has marital or financial problems, your assets could become mixed up in her problems. With assets such as stocks or real property, the issues get even more complicated when they are owned jointly with children. There are tax considerations if the assets have greatly appreciated in value. In addition there is a significant loss of control over the assets.

There is an alternative and normally preferred way to give your daughter the authority to act on your behalf without the above discussed problems of joint ownership. Consult with your attorney about a Financial Power of Attorney document. It is a very important estate planning document. It allows you to designate someone to act on your behalf with regard to financial and legal decisions.

The Financial Power of Attorney document can be presented to the bank by your daughter and she would then be able to access the account, pay your bills and take any other necessary actions in accordance with the terms and powers in your Financial Power of Attorney document. Financial Powers of Attorney documents can be drafted so that they are effective as soon as you sign them, or so that they are effective only after a physician certifies you are incapacitated.

Without a Financial Power of Attorney, if you become incapacitated, someone would have to file a guardianship petition with the court requesting the authority to act on your behalf. Guardianship is a costly and unnecessary proceeding if you have done proper advance planning.

Having stated all the above, it is true that in some circumstances joint ownership of assets can be beneficial. However, before adding a child's name to your accounts, you should review all of the legal issues involved with your attorney, and make your decision after you are fully advised on the benefits and risks involved.