

Estate tax alternate valuation election

Dear Reader:

You recently inquired about the election that can be made to have property valued in an estate under "alternate" valuation rather than at date-of-death value.

In general, a decedent's property is valued as of the date of death for estate tax purposes. However, one election available to a decedent's executor is to use alternate valuation. If this election is made, the property held in the estate is valued as of the date exactly six months after the date of death. Additionally, any property distributed to a beneficiary, sold, exchanged, or otherwise disposed of within the six-month period after the date of death is valued as of the date of distribution or other disposition.

If the election is made, it will have a dual impact: both on the value of estate assets for estate tax purposes and on the basis that the heirs receive in the assets passing to them. (An heir's basis in an asset that he receives from the decedent is equal to the estate tax value of the asset.)

The alternate valuation election can be made by the executor only if it will reduce the value of the gross estate *and* the combined estate and generation-skipping transfer (GST) tax liability. It cannot be made on an asset-by-asset basis; it must apply to all estate property. Although the total gross estate must be reduced by the election, individual assets may receive increased values.

One problem that the election was designed to take care of is the one caused by sudden large drops in the value of estate property. For example, if shortly after death the stock or real estate market plummets and, as a result, the value of the estate's property drops substantially, the election can prevent the estate tax from being based on the higher date-of-death value.

The election must be made on an estate tax return filed no more than one year after the due date (including extensions). The executor should have all the relevant information by the time that he makes the election, i.e., the comparative values on the date of death and the alternate valuation date. Once made, the election is irrevocable.

Please let us know if I can be of assistance regarding this important election or if you have any further questions.

