

Estate planning notes

US estate taxation - impact on Puerto Rico individuals

General rule

The US estate tax applies to the worldwide taxable estate of a decedent that at the date of death was a citizen or resident of the US. In the case of the estates of non-resident non-citizens, the US estate tax applies only to the property located in the US.

Citizenship and residence

The US estate tax applies differently to estates of those who are either citizens or residents of the US and to those that are not resident not citizens of the US.

US citizen resident of Puerto Rico

A US citizen resident of Puerto Rico at the date of death is considered US citizen for US estate tax purposes unless his/her citizenship was acquired solely by: being a citizen of Puerto Rico, being born in Puerto Rico, or being naturalized in Puerto Rico.

Puerto Rico resident decedent

For US estate tax purposes, a US citizen by his birth or naturalization in Puerto Rico and resident of Puerto Rico at the date of death is considered a non-resident alien. Only his/her property located in the US will be subject to US taxation and an exclusion of \$60,000 is allowed.

Any other US citizen

The estate of a decedent, who acquired US citizenship independently of his/her connection with Puerto Rico, is subject to federal estate tax, even though he or she resides in Puerto Rico at the date of death.

The applicable exclusion for 2017 is \$5,490,000.

US resident decedent

A US resident decedent is a person that at the date of death, had a US domicile and will be taxed on his/her worldwide assets. Domicile is determined by several factors: length of physical presence, home ownership, local community ties, location of family, voting card, driver's license, location of majority of assets and specially intent.

Puerto Rico Estate Tax

Puerto Rico estate tax rate is a fixed tax rate of 10% applicable to the net **taxable estate** with a possible reduction to zero with the application of the responsible taxpayer credit.

Checklist

- ✓ update inventory of assets
- ✓ list of debts and insurance policies
- ✓ execute a will and other available mechanisms in case of disability
- ✓ establish needs and goals
- ✓ maximize tax free transfers
- ✓ maximize available exclusions
- ✓ protect certain family members
- ✓ plan to avoid an unexpected heir like the government
- ✓ update your plan regularly

On our next article we will discuss what is included in a taxable estate.



Contact us

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July 7, 2015

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