

If I Receive An Inheritance, Will I Be Taxed?

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Many clients ask, “what happens if I receive an inheritance? Will I be taxed?” The typical answer from me is, “It depends.”

No state inheritance tax in Massachusetts

An inheritance tax is a tax on the beneficiary who is receiving the inheritance. If you are a Massachusetts resident and you receive an inheritance, there’s no state inheritance tax. There’s also no federal inheritance tax.

Death tax or estate tax

As mentioned, the mere fact you have received an inheritance does not mean there is a tax. However, there’s another type of tax known as a “death tax,” which is more formally known as an estate tax. That is not a tax to the beneficiary (or recipient). It is actually a tax on the estate when someone dies if the value of that estate exceeds certain thresholds.

Estate taxes

On the federal side, there’s a federal estate tax. That tax threshold is \$12.06 million. So, in 2022, if the estate of the person who passed away is under that \$12.06 million, there’s no federal estate tax.

If the person who passed away was a Massachusetts resident,

the threshold is significantly lower—\$1 million to be specific. If the estate exceeds \$1 million, the estate may need to pay an estate tax, but that comes off the top before the beneficiary (or recipient) inherits.

Other tax issues

If you're a beneficiary of a retirement plan, an IRA, or a 401k, withdrawal of those funds will be treated as income to you upon withdrawal. And you'll have to report that on your 1040 income tax return the year following the withdrawal.

Growth in the value of the inherited asset

The other time when you receive an inheritance with possible future tax requirements is if there's been a growth in the value of the inherited asset from the date of death to the date you sell it. There will be a capital gains tax just on that growth, but it's not a tax by the mere fact that you inherited it; it's just on the increased value.

I hope you found this information regarding inheritances and possible tax requirements helpful. If you have any other questions regarding estate planning or tax planning, reach out to a qualified estate planning attorney and your accountant/CPA.

The information contained in this article is not intended to make you an expert on estate planning nor is this article intended to replace the need for the advice of a professional. Rather, this article is simply intended to provide a basic understanding of why estate planning is important for everybody and a basic understanding of some of the more common estate planning tools. This article does not constitute legal advice.