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TRAIN: 'til Death are We Taxed - Softening the Imposition of Estate Tax

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These amendments are righteous in a sense that it gives proper consideration to the hard work that we endure during our lifetime.

It is difficult to accept the death of a loved one. The lifetime bonds that were formed with them make it all the more difficult to come to terms of them passing away. The emotional scars left behind from losing a loved one cuts deep, and adding onto that the various administrative and financial burdens that ensue after they pass away only cause further distress to the already grieving relatives.

Naturally, our loved ones tend to look out for us even after death, leaving behind any and all fortunes they may have accumulated during their lifetime. In many cases, this is to ensure that the decedent's family may continue to be financially supported despite his or her loss. However, under our Tax Code, the inheritance received by heirs of the decedent is considered as a transfer or a flow of wealth, thus making it subject to tax, specifically estate tax. Prior to the changes brought about by the Tax Reform for Acceleration and Inclusion (TRAIN), the estate to be inherited by the heirs was subject to a substantial rate of estate tax. TRAIN primarily aims to relieve much of this tax burden as well as provide a greater measure of ease in administrative compliance.

Under the provisions of our Tax Code, prior to the amendments implemented by TRAIN, the computation of estate tax is done using a graduated rate, similar to that used in computing the personal income tax. The estate is subject to a flat amount of tax plus 5% to 20%, increasing based on a graduated tax bracket. Now under TRAIN, much of the tax burden from the decedent's estate is alleviated by lowering – and effectively, simplifying – the computation of estate tax, and increasing the amount of deductions that may be claimed to lower the taxable estate. Further, several administrative provisions were also changed, providing more ease in filing the estate tax return.

The most notable change under TRAIN, in relation to estate taxes, is the change in the estate tax rate from 5% to 20% graduated rate, to a flat 6% tax rate. The change is straightforward but significant in that it simplifies the computation of the estate tax due, and for some lowers the amount of tax that is imposed on the net estate of the decedent, leaving more for the heirs to benefit from. This is further complemented by the increase in allowable deductions that may be claimed in computing the net taxable estate.

Under our Tax Code, as amended by TRAIN, the standard deduction allowed to resident and citizen decedents has increased from Php1,000,000.00 to Php5,000,000.00. Further, the limit on the family home deduction that may be claimed by resident or citizen decedents has increased as well from Php1,000,000.00 to Php10,000,000.00. However, in a slight contrast to the above, funeral expenses, judicial expenses, losses, and indebtedness (i.e. ELITE) related to that of the decedent are no longer allowed as deduction from the estate. Nonetheless, these amendments make it more convenient to compute for the estate tax in favor of the decedent. It is inarguably easier to apply and claim the standard deduction than it is to substantiate the ELITE deductions to be claimed by the estate. Incidentally, the increases in the standard deduction and the family home deduction also makes claiming the ELITE deduction unnecessary since it starkly overshadows the amount that may be deducted from the estate.

Now aside from the changes in the estate tax computation brought by TRAIN, this was also accompanied by amendments to certain administrative provisions. This is to give taxpayers more ease in the filing and payment requirements of the estate tax return and the estate tax. In particular, Section 25 of TRAIN extends the deadline of filing of the estate tax return from six (6) months from the time of the decedent's death to one (1) year from that date. This not only allows more time for the family to grieve their loss, but also provides more time for the administrative proceedings to be properly and fully accomplished. In a sense, it is an extension of courtesy and respect towards the family of the deceased by providing them with the time they surely need to cope with the death of their loved one.

As for the payment of the estate taxes, Section 25 of TRAIN provides that the estate tax due thereon may now be paid on installment within two years of the statutory deadline of its due date, giving more time that may be needed to compute and settle any agreements among the inheriting parties, or to give more time to liquidate any non-cash assets that may be used to pay the estate tax due. Accompanying this is Section 26 of TRAIN which now allows banks to authorize withdrawal of the deposits held solely or jointly by a decedent prior to the payment of estate taxes, provided that they are aware of that person's death and that the cash withdrawn from the account be subjected to 6% withholding tax. This amendment then frees up the cash of the decedent which may then be used by the family for immediate daily sustenance and needs without having to require outside assistance.

To close, the amendments to the estate tax provisions are a refreshing splash of cool water for taxpayers, especially now when they are experiencing heat from the other changes brought about by TRAIN. These amendments are righteous in a sense that it gives proper consideration to the hard work that we endure during our lifetime. Coupled with our drive to ensure the survival and comfort of the loved ones we would eventually leave behind, and the uncertainty as to when that time may come, then the sense of security that these amendments to the Tax Code provide is invaluable.

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