Loss of a Loved One: Steps to Manage Tax Responsibilities

Losing someone close is one of life's most difficult experiences. Unfortunately, tax obligations do not pause during grief. Understanding what needs to be done — and in what order — can help surviving family members and personal representatives navigate this process with greater confidence.

Who Handles the Tax Responsibilities?

The personal representative is the person responsible for filing the decedent's tax returns and settling tax obligations. This can be a court-appointed executor or administrator, but when no probate is required, the IRS allows a "person in charge of the decedent's property" to step in. If there is a surviving spouse, he or she typically files the joint final Form 1040 and any other required returns. If there is no surviving spouse, the person who files is commonly the trustee of the decedent's revocable trust, the personal representative nominated in the will, or a beneficiary receiving nonprobate assets.

Step 1: Gather the Person's Tax Records

Before any returns can be filed, the personal representative needs to locate and organize the decedent's tax records. This includes prior year tax returns, W-2s and 1099s, records of estimated tax payments, investment account statements, and any other documents reflecting income, deductions, or credits. For the year of death, Forms 1099-INT and 1099-DIV issued in the decedent's name may include income earned both before and after the date of death, so careful review is essential to ensure amounts are reported on the correct return — either the final Form 1040 or the estate's Form 1041. Gathering complete records early in the process helps avoid delays and ensures nothing is overlooked.

Step 2: Identify Which Returns Must Be Filed

The personal representative may be responsible for several different returns, not just one. Here is a summary of the most common ones:

Form 1040 — This is the decedent's final income tax return, covering January 1 of the year of death through the date of death. If the decedent passed away after the close of the prior tax year but before filing that year's return, the personal representative must also file that prior year return as a regular return.

Form 1041 — If the decedent's estate receives gross income of $600 or more after death, an estate income tax return must be filed. The estate is a separate taxable entity that comes into existence at the time of death and continues until assets are distributed to

heirs. [4]

Form 706 — The estate tax return is required if the decedent's estate exceeds the estate tax exclusion or if the portability election is being made for the surviving spouse.

Form 709 — A gift tax return for the year of death may also be required if the decedent made taxable gifts during that year.

Step 3: File Any Tax Returns
Once records are gathered and the required returns are identified, the personal representative must file each return by its applicable deadline. The final Form 1040 is generally due April 15 of the year following the year of death. A six-month extension is available by filing Form 4868 by that April 15 deadline.Form 1041 for the estate is due on the 15th day of the 4th month after the end of the estate's tax year, with a 5½-month extension available by filing Form 7004. The word "DECEASED," the decedent's name, and the date of death must be written across the top of the final Form 1040.

Step 4: Handle Signatures and Refund Claims
If a personal representative has been appointed, that person must sign the return. On a joint return, the surviving spouse must also sign and write "Filing as surviving spouse" in the signature area.

To claim a refund on behalf of the decedent, Form 1310 is generally required unless the claimant is a surviving spouse filing a joint return or a court-appointed personal representative who attaches a copy of the court certificate to the return. Even if the decedent was not otherwise required to file, a return must be filed to claim a refund for any taxes withheld or estimated tax payments made.

Step 5: Notify Payers and Obtain an EIN for the Estate
The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This ensures that income earned by the estate or heirs is reported correctly going forward. If a Form 1041 is required, the personal representative must obtain an Employer Identification Number (EIN) for the estate using Form SS-4 and file Form 56 to notify the IRS of the fiduciary relationship.

A Note on Personal Responsibility
The personal representative should be aware that he or she can be held personally liable for unpaid tax obligations of the decedent or the estate if assets were distributed before

those taxes were paid and the representative had notice of the tax obligations or failed to exercise due care in determining whether they existed.This makes it especially important to work through tax obligations carefully before closing out the estate.

Working with a qualified tax professional during this time can help ensure all required returns are filed accurately, all available refunds are claimed, and the decedent's tax affairs are properly closed. I can go deeper into any of these areas — estate income reporting, the portability election, or Form 1041 filing requirements — if that would be helpful.

This information is provided to you by Arrowhead Tax Service. We make every effort to provide honest and accurate tax information. Please use your discretion before making any decisions based on the information provided, every tax situation is different. If you have any questions, please visit our office or call us at 937-543-5770.