



Personal Wealth Advisory, LLC

Wise strategies for your wealth and your life

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The News You Need to Know

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LOOKING AT THE NEW ESTATE TAX LAWS

A rundown of recent changes.

In 2011, families and their financial, tax and legal consultants can at last plan estates with a degree of certainty. Thanks to the Tax Relief Act of 2010, we now have the lowest estate tax rate in 80 years, with some new rules to be aware of, and some very interesting choices and options affecting estate planning.¹

The federal estate tax is now 35% with a \$5 million individual exemption. This is true for 2011 and 2012 – after 2012, estate tax rates could change.²

The new \$5 million exemption is portable. That is, executors have the option to transfer an unused \$5 million individual estate tax exemption (upon the death of one spouse) to a surviving spouse. So with this new portability, a married couple could potentially transfer up to \$10 million of assets without incurring federal estate tax.³

Executors of estates for decedents who passed away in 2010 have two options. They can elect to:

- Subject the estate to the 2011 federal rules (35% estate tax, \$5 million estate exemption, stepped-up basis for appreciated assets per IRC rule 1014)
- Subject the estate to the 2010 federal rules (0% estate tax and the \$1.3 million modified carryover basis for appreciated assets in the estate, which becomes \$3 million for assets passing to a surviving spouse).^{3,4,5}

Estates worth more than \$5 million will have to consider many factors to determine which choice will give them less of a tax burden.

The federal gift tax exemption is set at \$5 million through 2012. This is a fantastic tax break. Wealthy taxpayers can now plan to transfer significantly greater amounts of wealth within their lifetimes without triggering gift tax. This \$5 million exemption is individual and portable, meaning that couples could potentially gift up to \$10 million to heirs.^{2,5}

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Upcoming Events

Timely Conversations
Workshop

Topic:

*Social Capital...
What to do when you can't
take it with you.*

Date:

*Wednesday
March 30, 2011*

Session I

10:00 a.m. to 11:00 a.m.

or

Session II

7:00 p.m. to 8:00 p.m.

Location:

*Personal Wealth Advisory,
LLC*

To register:

Please contact Pam Snow at
717-735-1170 or
psnow@pwallc.net
Seating is limited.

Mission:

*To help our clients
make wise financial decisions
that sustain their personal
goals and values*

The annual gift tax exclusion is again \$13,000 in 2011, so one taxpayer may gift up to \$13,000 each to an unlimited number of individuals this year with the lifetime exclusion of \$5 million in mind. (Those gifts can include tuition and payments for medical care.)²

Charitable IRA donations are again permitted. This isn't an estate tax law *per se*, but it factors into estate planning and it is certainly worth noting. Charitable IRA rollovers are back in 2011 (we don't know yet if they will be around in 2012). There may be less financial incentive for families to make these rollovers given the much higher gift and estate tax exclusion this year, but others will act on their altruism.^{6,7}

The charitable IRA rollover allows an IRA owner age 70½ or older to gift up to a total of \$100,000 in IRA assets to one or more qualified charities or non-profit organizations (a move that can count toward his or her annual RMD). It has to be a direct transfer – the gift must pass directly from an IRA sponsor to the charity. The IRA accountholder doesn't get a tax deduction, but he or she can potentially bypass the income tax on the distribution.⁶

- **Charitable IRA gifts made in January 2011 can count for 2010.** The new law says that if you make a charitable IRA transfer in January 2011, you can elect to report the transfer on your 2010 federal return. Additionally, you are free to make another IRA charitable rollover of up to \$100,000 at some other point in 2011 for the benefit of your 2011 federal return.⁷

The GST is back. The generation-skipping transfer tax was 0% in 2010, but it returns at 35% in 2011. The GST exemption is set at \$5 million for 2011 and it will be inflation-indexed for 2012.^{5,8}

In light of these interesting developments, it might be time to review your estate planning strategy.

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Citations.

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