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## SUMMARY OF CHANGES IN FEDERAL ESTATE AND GIFT TAXES

### January 2011

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted in late December, establishes a \$5-million exemption amount and flat 35% rate for estate, gift, and generation-skipping transfer taxes. The new law remains in effect for two years. Absent further legislation, the tax law as it existed before the “Bush tax cuts” in 2001 will return after December 31, 2012. The following table summarizes the changes:

Federal Taxes:		2010	2011	2012	2013
Estate Tax	Exemption amount	Choice of: (a) \$5 million or (b) no estate tax (but see income tax rules below)	\$5 million	\$5 million*	\$1 million
	Rate	Default flat 35%	flat 35%	flat 35%	41% - 55%
Gift Tax	Exemption amount	\$1 million	\$5 million	\$5 million*	\$1 million
	Rate	flat 35%	flat 35%	flat 35%	41% - 55%
Generation-Skipping Transfer Tax	Exemption amount	\$5 million	\$5 million	\$5 million*	\$1.4 million**
	Rate	0%	flat 35%	flat 35%	flat 55%
Income Tax Basis		Choice (a) under estate tax: full step-up in basis  Choice (b) under estate tax: limited step-up	Income tax basis of an inherited asset is equal to its fair market value at the time of death (“step-up” in basis).		

\* These amounts are to be adjusted for inflation.

\*\* The Generation-Skipping Transfer Tax exemption includes the approximate inflation adjustment based on a \$1-million amount as of 2001.

New Feature: Portability. A new portability provision allows a surviving spouse to use his or her last deceased spouse's unused estate tax exemption if a timely election is made. This provision is scheduled to sunset at the end of 2012.

But Beware of State Estate Tax. State estate or inheritance taxes remain in effect with the same exemption amounts and tax rates as before.

- The Washington estate tax applies to residents whose gross estates are over \$2 million, at graduated rates between 10% and 19%. Example: a \$3 million estate is taxed at 10% on the \$1-million excess over the \$2-million exemption.
- The Oregon inheritance tax applies to residents whose gross estates are over \$1 million, at graduated rates between 0.8% and 16%. Example: a \$2 million estate is taxed at up to 8% on the \$1-million excess over the \$1-million exemption.

If you would like us to review your situation and assess your opportunities in light of the changes in federal tax law, please contact us.



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