



Farrell Fritz Client Alert

The \$5 Million Dollar Gift Tax Exemption – A Victim of Congressional Deficit Reduction?

November 2011

As you may know, the federal gift and estate tax laws were dramatically changed approximately one year ago. This new and largely unexpected law provided for a taxpayer friendly reform of the federal estate tax as well as a very generous individual lifetime gift tax exemption of \$5 million dollars. This dramatically increased exemption has provided for tremendous and unprecedented estate planning opportunities, especially in the current economic environment, where asset values and the required interest rates used in connection with estate planning are historically low.

Because the new law is merely a two-year “Band-Aid” set to expire December 31, 2012, and these taxpayer friendly concessions may not be available in the not-too-distant future, many of our clients have accelerated their estate planning in order to take maximum advantage of the opportunities the current law provides.

Recently, you may have heard of rumors circulating in financial publications and around the estate-planning community, which suggest that the \$5 million dollar gift tax exemption may be within the cross-hairs of the Congressional Joint Select Committee on Deficit Reduction (the “Super Committee”). These rumors suggest that the Super Committee will recommend that the gift tax exemption be reduced to \$1 million dollars, effective December 31, 2011, or possibly as soon as November 23, 2011 (the date the Super Committee’s recommendations to Congress are due). This accelerates the planned reduction of the gift tax exemption by a full year, and leaves those individuals who have been slow to act in a very uncomfortable predicament.

While it would seem strange that Congress would so hastily reverse itself on tax reductions which were only agreed upon last year, the resounding Super Committee rumors have endured and certainly cannot be ruled out in today’s political environment. The Super Committee has a mandate to reduce the federal deficit, and we cannot be certain as to which programs and/or tax incentives may be targeted.

To this end, we are providing this “Client Alert” so that our clients and friends will be well-informed to make decisions concerning whether or not to utilize their \$5M gift tax exemptions immediately, rather than risk the possibility of losing them. If you have any questions regarding the advisability of accelerating your estate planning before year-end, please do not hesitate to contact us.