

# KATZ BASKIES & WOLF PLLC

## Trusts & Estates, Tax & Business Law


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### GENERAL NEWS

#### **Tax Update: IRS Announces 2012 Inflation-Adjusted Estate and Gift Tax Terms**

Good news. RIA (a tax reporting service) just released the inflation-adjusted estate and gift tax terms for 2012, and the gift, estate and GST tax basic exclusions should all be going up from \$5,000,000 to \$5,120,000. That's an additional \$120,000 of lifetime gifting or estate tax exemption available to clients starting January 1, 2012.

Also, for US citizens with non-citizen spouses, the annual exclusion amount available to gift such spouses will increase from \$136,000 to \$139,000. However, please note that the annual exclusion from gift tax (the amount any citizen or resident can give to anyone tax-free each year) will stay at the same level. The annual gift tax exemption will be \$13,000 again in 2012 as it was in 2011.

For a full report of the impact of inflation adjustments on estate and gift taxes, RIA reported:

#### **Inflation-Adjusted 2012 Figures for Estate and Trust Tax Brackets and Other Transfer Tax Items**

A number of tax figures are adjusted each year for inflation based on the average Consumer Price Index (CPI) for the 12-month period ending the previous August 31. The August 2011 CPI has been released by the Labor Department. (U.S. Department of Labor, Consumer Price Index (for all-urban consumers), 9/15/2011) Using the CPI for August 2011 (and the preceding 11 months), RIA calculated adjustments for 2012 to the estate and trust income tax rate schedule, and for transfer tax items.

**Tax rate schedules.** The tax rate schedules for 2012 will be as follows:

#### FOR ESTATES AND TRUSTS, THE 2012 RATE

##### BRACKETS ARE:

If taxable income is:	The tax is:
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Not over \$2,400	15% of taxable income
Over \$2,400 but not over \$5,600	\$360.00 plus 25% of the excess over \$2,400
Over \$5,600 but not over \$8,500	\$1,160.00 plus 28% of the excess over \$5,600
Over \$8,500 but not over \$11,650	\$1,972.00 plus 33% of the excess over \$8,500
Over \$11,650	\$3,011.50 plus 35% of the excess over \$11,650

**Unified estate and gift tax exclusion amount.** For gifts made and estates of decedents dying in 2012, the basic exclusion amount will be \$5,120,000 (up from \$5,000,000 for gifts made and estates of decedents dying in 2011).

**Generation-skipping transfer (GST) tax exemption.** The exemption from GST tax will be \$5,120,000 for transfers in 2012 (up from \$5,000,000 for transfers in 2011).

**Gift tax annual exclusion.** For gifts made in 2012, the gift tax annual exclusion will be \$13,000 (same as for gifts made in 2011).

**Special use valuation reduction limit.** For estates of decedents dying in 2012, the limit on the decrease in value that can result from the use of special valuation will be \$1,040,000 (up from \$1,020,000 for 2011).

**Determining 2% portion for interest on deferred estate tax.** In determining the part of the estate tax that is deferred on a farm or closely-held business that is subject to interest at a rate of 2% a year, for decedents dying in 2012 the tentative tax will be computed on \$1,390,000 (up from \$1,360,000 for 2011) plus the applicable exclusion amount.

**Increased annual exclusion for gifts to noncitizen spouses.** For gifts made in 2012, the annual exclusion for gifts to noncitizen spouses will be \$139,000 (up from \$136,000 for 2011).

**Reporting foreign gifts.** If the value of the aggregate "foreign gifts" received by a U.S. person (other than an exempt [Code Sec. 501\(c\)](#) organization) exceeds a threshold amount, the U.S. person must report each "foreign gift" to IRS. ( [Code Sec. 6039F\(a\)](#).) Different reporting thresholds apply for gifts received from (a) nonresident alien individuals or foreign estates, and (b) foreign partnerships or foreign corporations. For gifts from a nonresident alien individual or foreign estate, reporting is required only if the aggregate amount of gifts from that person exceeds \$100,000 during the tax year. For gifts from foreign corporations and foreign partnerships, the reporting threshold amount will be \$14,723 in 2012 (up from \$14,375 for 2011).

**Kiddie tax.** The exemption from the kiddie tax for 2012 will be \$1,900 (same as for 2011). A parent will be able to elect to include a child's income on the parent's return for 2012 if the child's income is more than \$950 and less than \$9,500 (same as for 2011).

**AMT exemption for child subject to kiddie tax.** The AMT exemption for 2012 for a child subject to the kiddie tax will be the lesser of (1) \$6,950 (up from \$6,800 for 2011) plus the child's earned income, or (2) \$33,750 (down from \$48,450 for 2011).

Source: RIA – Checkpoint tax services by Reuters.