

Estate Planning Notice

Eleventh-Hour Fiscal Cliff Tax Relief Finally Creates Estate, Gift and GST Tax Certainty

On January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (the "Act"), which, among other changes, finally provides a level of certainty to the federal estate, gift and GST taxes that has not existed since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001. The Act keeps estate, gift and GST exemption levels at \$5 million (indexed for inflation) but increases the applicable tax rate from 35% to 40%.

The Act represents the much-hoped-for compromise to avoid the so-called fiscal cliff. In the final hours, the estate tax proved to be a surprisingly important battleground that threatened to derail the entire compromise. Ultimately, Democrats conceded a \$5 million exemption in exchange for higher income and estate tax rates. The Act also made permanent certain favorable estate, gift and GST tax laws, including inflation indexing of the exemptions, portability of a deceased spouse's unused estate tax exemption and allowing qualified severances of trusts for optimal use of GST exemption.

The new 40% estate tax rate will significantly increase the estate tax liability for estates in excess of \$5 million, thereby making lifetime estate tax planning as important as ever. Accordingly, high-net-worth individuals should consider taking advantage of appropriate estate tax saving techniques, including GRATs, installment sales and loans, equity freezes, QPRTs, fractional interests and discount entities. However, Congress continues to discuss comprehensive tax reform, and some estate planning techniques that are particularly attractive today could conceivably be limited or eliminated as part of any future tax reform.

In addition, existing basic estate plans should be reviewed and, if appropriate, revised in light of the new tax laws to ensure that such plans will operate as intended and achieve the best tax results.

If you would like to discuss how the new tax laws affect your specific situation and existing estate plan, please contact a member of the Vedder Price Estate Planning group at +1 (312) 609 7500.

Federal Estate, Gift and GST Tax Exemptions and Rates:

	2012		2013, had Congress failed to act		2013+ after fiscal cliff rescue	
	Exemption	Rate	Exemption	Top Rate	Exemption *	Rate
Estate Tax	\$5,120,000	35%	\$1,000,000	55%	\$5,250,000	40%
Gift Tax	\$5,120,000	35%	\$1,000,000	55%	\$5,250,000	40%
GST Tax	\$5,120,000	35%	\$1,430,000	55%	\$5,250,000	40%

* As of January 2, 2013, the IRS had not yet announced the official inflation-adjusted exemptions for 2013 for the estate, gift and GST taxes, but \$5,250,000 is the best projection available based on current data.

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Principal Estate Planning Members of the Tax & Estate Planning Group

Igor Potym +1 (312) 609 7542
Michael G. Beemer +1 (312) 609 7630
Charles H. Wiggins, Jr. +1 (312) 609 7525
Christine M. Rhode +1 (312) 609 7575
Michael D. Whitty +1 (312) 609 7812
Robert F. Simon +1 (312) 609 7550
Amy E. Lewis +1 (312) 609 7837
Maureen Huhs +1 (312) 609 7558

VEDDER PRICE[®]

222 NORTH LASALLE STREET

CHICAGO, ILLINOIS 60601

+1 (312) 609 7500 | +1 (312) 609 5005 • FAX

1633 BROADWAY, 47TH FLOOR

NEW YORK, NEW YORK 10019

+1 (212) 407 7700 | +1 (212) 407 7799 • FAX

1401 I STREET NW, SUITE 1100

WASHINGTON, D.C. 20005

+1 (202) 312 3320 | +1 (202) 312 3322 • FAX

4 COLEMAN STREET

LONDON EC2R 5AR

+ 44 (0)20 3667 2900 | + 44 (0)20 3667 2901 • FAX

www.vedderprice.com

Estate Planning Group

Vedder Price has long recognized the importance of estate and financial planning, and its attorneys have taken leadership roles in the development of this changing area of the law. The firm's practice in this area has grown steadily, and now has both a national and an international scope. Vedder Price's attorneys combine technical experience in all aspects of estate and financial planning with a strong appreciation of personal values, priorities and goals, as well as the unique needs of business owners.

The firm represents clients with diverse personal objectives and financial interests, including individuals with large estates; individuals with personal situations requiring special planning; owners of closely held businesses; and corporate executives, professionals and inheritors. Vedder Price's estate and financial planning attorneys also represent executors, administrators, trustees and guardians. In addition, the firm provides estate and financial planning counsel to businesses, not-for-profit organizations and other professionals who consult with Vedder Price regarding their own clients.

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