

Recent Income and Estate Tax Law Changes: 2011



12 Unique Pieces of Tax Legislation in 2010

- This legislation affects Federal income tax, payroll or social security tax, estate tax and gift tax
- By implication, North Carolina income tax may be affected by some of the federal law changes

Social Security Changes

- Health Insurance Deduction for self-employed persons in 2010 on Schedule SE
- 2% reduction of payroll tax for the employee's with holding and the self-employed in 2011

Gift Tax Changes

- Annual Gift Exclusion for 2011 remains \$13,000 per donee
- The Lifetime Gift Exclusion has been increased to \$5 million for 2011 and 2012
 - An opportunity exists for major estate planning and management via gifting

Generation Skipping Tax returns

- Exclusion amount is \$5 million for 2010 and 2011, inflation adjusted for 2012
- Generation Skipping Tax Rate
 - 2010 = 0%
 - 2011 and 2012 = 35%

Estate Tax Changes

- 2010 estates have a choice relative to taxability of estate or not
- 2011 and 2012 have new improved rules to use
- 2013? WHO KNOWS

Tax rate and Exempted Amount

<u>Year</u>	<u>Tax Rate</u>	<u>Exempted Amt.</u>
• 2009	45%	\$3,500,000
• 2010	Repeal of Estate Tax (no step up on all assets, limited to ~\$4.3 million)	
• 2010	35%	\$5,000,000
• 2011	35%	\$5,000,000
• 2012	35%	\$5,000,000
• 2013	55%	\$1,000,000

2010 Estate Choice

- Use the rules for repeal (no estate tax) however limited step up in basis
- Use the rules for retroactive \$5 million dollar tax free estate and step-up in basis.
 - This may be very good choice...for the heirs.

Installment Payment of some Estate tax

- For two years (2011 and 2012) if closely held businesses make up more than 35% of estate's value, an installment agreement to pay up to \$476,000 of estate tax at 2% interest can be obtained from IRS.

Other Estate Planning tools

- IRC § 2032(a) increased to \$1,020,000
 - Allows for decrease in estate tax, must be kept in farming, forestry for ten years by eligible heirs (family).

Other Estate Planning tools

- Conservation Easement Donations
 - Special rules extended through December 31, 2011
 - Allows for 50% AGI deduction
 - For farmers, ranchers allows for 100% AGI deduction
 - Extends carry-over period from 5 yrs to 15 years

Portability of Exclusion Amount

- Each spouse has a \$5 million tax free estate, if the first to die doesn't use all of this amount, then the surviving spouse can add the remainder to his/her exclusion amount.
- For 2011 and 2012
- Remarriages can't bundle, determined by the last deceased spouse.

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