TAX, TRUSTS & ESTATES LAW MONITOR
UPDATES AND COMMENTARY ON BUSINESS AND INDIVIDUAL TAX AND ESTATE PLANNING

PUBLISHED BY
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COLE, SCHOTZ, MEISEL, FORMAN & LEONARD, P.A.

Tax Planning Opportunities in 2012

February 29, 2012 by Steven D. Leipzig

Significant estate tax planning opportunities which are available under current legislation may be eliminated or severely restricted after December 31, 2012. It is therefore critical to evaluate whether steps should be taken this year to maximize estate tax savings.

For the following reasons, 2012 is the year to implement tax reduction strategies:

1. The federal law provides for a $5.12 million gift tax exemption through year-end which creates significant gifting opportunities. On January 1, 2013, the exemption is scheduled to be reduced to $1 million.

2. Powerful concepts available under current law such as valuation discounts for interests in family entities and transfers to Intentionally Defective Grantor Trusts ("IDGTs") and short term Grantor Retained Annuity Trusts (GRATs) may be restricted under new tax legislation.

3. Lifetime gifts can achieve significant New Jersey or New York estate tax savings. Neither state has a gift tax and, unlike the federal estate tax, lifetime gifts are generally not taken into account in the calculation of New Jersey or New York estate taxes.

4. Market conditions may produce lower asset valuations, particularly with respect to real estate, which is beneficial from a tax perspective.

5. The low interest-rate environment enhances the tax benefits of several planning strategies that are interest-rate sensitive.

This article published recently in the New York Law Journal highlights these important issues.

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