

**THE TABLES BELOW PROVIDE A SUMMARY OF THE FEDERAL ESTATE  
AND GIFT TAX APPLICABLE EXCLUSION AMOUNTS AND TAX RATES.**

**Federal Estate Tax Applicable Exclusion Amount**

Year of Transfer	Applicable Exclusion Amount (Exemption Amount)	Source
2011	\$5.0 million per person*	I.R.C. § 2010(c)
2012	\$5.12 million per person*	I.R.C. § 2010(c) and Rev. Proc. 2011-52.
2013	\$5.25 million per person*	I.R.C. § 2010(c) and Rev. Proc. 2013-15.

\*This figure represents the amount of assets a U.S. Citizen may transfer at death without the requirement of paying any federal estate tax. If a person's gross estate exceeds the applicable exclusion amount, then the executor of the decedent's estate must file a federal estate tax return (IRS Form 706) and pay estate tax on the net estate that exceeds the applicable exclusion amount for the year of death. The current estate tax applicable exclusion amount is indexed for inflation. This inflationary index accounts for the change to \$5.12 million for 2012 and \$5.25 million for 2013.

**Federal Estate Tax Rate**

Year of Death	Tax Rate	Source
2011	35%*	I.R.C. §2001(c)
2012	35%*	I.R.C. §2001(c)
2013	40%*	I.R.C. §2001(c)

\*The applicable tax rate applies to all assets of a decedent that exceed the applicable exclusion amount referred to above. For example, if a person dies in 2011 with a taxable estate of \$6 million, then \$1 million will be subject to federal estate tax. This will result in federal estate tax due of \$350,000 (.35 x \$1,000,000).

### **Federal Gift Tax Applicable Exclusion Amount**

Year of Gift	Applicable Exclusion Amount (Lifetime Exemption Amount)	Source
2011	\$5 million per person*	I.R.C. § 2505
2012	\$5.12 million per person*	I.R.C. § 2505 and Rev. Proc. 2011-52.
2013	\$5.25 million per person*	I.R.C. § 2505 and Rev. Proc. 2013-15.

\*This figure represents the amount of assets a U.S. Citizen may give away during lifetime, which is above and beyond the federal gift tax annual exclusion amount (see below). If a person gives away more than the federal gift tax annual exclusion amount in a calendar year, then a gift tax return must be filed (IRS Form 709); however, the filing of a gift tax return is not synonymous with payment of gift tax. Gift tax will only become due once a person gives away assets in excess of his or her federal gift tax annual exclusion that exceed the applicable exclusion amounts referred to above. For example, if in 2011, a person gives away assets valued at \$5,013,000 to his daughter, the first \$13,000 falls under the parent's federal gift tax annual exclusion (see below); the remaining \$5 million uses the parent's applicable exclusion amount (lifetime exemption amount). If the parent gives away more than \$5,013,000 to his daughter, then the parent will be subject to gift tax equal to 35% of the amount above the excluded amount. Gift tax is always the liability of the donor, subject to a penalty exception under I.R.C. § 6901 (providing, that if the donor does not pay the gift tax, the IRS has the ability to impose liability and even a gift tax lien upon the recipient of the gift). Generally, the recipient of the gift receives the property income tax free and is not required to report the gift on his or her individual income tax return.

### **Federal Gift Tax Annual Exclusion**

Year of Gift	Federal Annual Exclusion Amount	Source
2002-2005	\$11,000	I.R.C. § 2503(b);
2006-2008	\$12,000	Rev. Proc. 2001-59;
2009-2012	\$13,000	Rev. Proc. 2002-70;
2013	\$14,000*	Rev. Proc. 2003-85;
		Rev. Proc. 2004-71;
		Rev. Proc. 2005-70;
		Rev. Proc. 2006-53;
		Rev. Proc. 2007-66;
		Rev. Proc. 2008-66;
		Rev. Proc. 2009-50;
		Rev. Proc. 2010-40;
		Rev. Proc. 2011-52.

\*This exclusion generally means that a U.S. Citizen may give away \$14,000 in 2013 to any number of persons without incurring the requirement of filing a gift tax return. In addition, the donor would not be required to pay any gift tax related to the gift. For example, a person may give away \$14,000 or less in cash to each of his seven children in 2013 with no requirement to tell the IRS anything about the gifts. However, if the same person gives more than \$14,000 to any person in 2013, this will trigger the requirement to file a gift tax return. *See* I.R.C. § 6019.

### **Federal Gift Tax Rates**

Transfer in 2011	35%	I.R.C. §2001(c)
Transfer in 2012	35%	I.R.C. §2001(c) and Rev. Proc. 2011-52.
Transfer in 2013	40%*	I.R.C. §2001(c)

\*This tax rate applies to gifts that exceed a donor's applicable exclusion amount. If, in 2011, a donor gave away \$6 million in assets to his daughter, and he has not used any of his applicable exclusion amount in the past, then the gift must be reported on IRS Form 709 with the donor subject to gift tax equal to \$345,450 (.35 x \$987,000). Notice that \$13,000 of the gift is not subject to gift tax, due to the federal gift tax annual exclusion, which was applicable in 2011.

Estate and gift tax reporting is a highly complex issue. Gift tax reporting becomes even more complex when a donor needs to allocate his or her generation-skipping transfer tax exemption (GST Exemption) to an annual gift. The IRS has the power to impose delinquency-related penalties, accuracy-related penalties, and criminal prosecution for noncompliance with gift tax reporting. *See* I.R.C. §§ 6651; 6662; 6663; 6901; 6324. Attorney Vogel has regularly prepared estate and gift tax returns since beginning his practice.

### **Other Gift Tax Exclusions**

Medical and Educational Expenses: In addition to the annual federal gift tax exclusion, the Internal Revenue Code excludes other gifts or transfers from the normal requirements of gift tax reporting. I.R.C. § 6019(a)(1) provides that direct payments for medical and educational expenses under I.R.C. § 2503(b) do not have to be reported on a gift tax return. For example, a grandparent may pay a grandchild's college tuition in full, by making direct payment to the grandchild's college or university, even though the tuition expenses greatly exceed the federal gift tax annual exclusion.

Charitable Gifts: Of course, gifts that are made to wholly charitable organizations are not subject to gift tax reporting. *See* I.R.C. §§ 2522 and 6019(a)(3).

Gifts Made to Spouses: Gifts made to spouses, whom are U.S. Citizens and for which a marital deduction under I.R.C. § 2523 applies, are not subject to gift tax reporting. For example, a wealthy husband may give an unlimited amount of assets to his wife without the need to report the transfers to the IRS.