

# TRUSTS & ESTATES ALERT

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Recent changes to  
Federal tax laws may  
affect you.

## Congress Avoids Fiscal Cliff

President Obama recently signed into law The American Taxpayer Relief Act (ATRA). As many of you know, the passage of ATRA was necessary for the United States to avoid the “fiscal cliff” of expiring tax cuts and large spending cuts. In the coming weeks, we will provide you with a detailed explanation of ATRA. In the meantime, we wanted to highlight some of the act’s provisions that may be of interest to you.

### Estate, Gift and Generation-Skipping Transfer (GST) Taxes.

ATRA permanently provides for a federal estate, gift and GST-tax exemption of \$5,000,000 indexed for inflation. The gift, estate and GST-tax exemptions are projected to be \$5,250,000 for 2013. ATRA increased the federal, gift and GST-tax rates from 35% to 40%.

### IRA Distributions to Charity.

For 2012 and 2013, ATRA allows certain taxpayers to make tax-free distributions from individual retirement accounts to public charities. A taxpayer must be 70 1/2 or older, and distributions to charity are limited to \$100,000 each year. With respect to 2012, taxpayers who received an IRA distribution in December 2012 may treat such distribution as a charitable deduction if the distribution is contributed to a charity before February 1, 2013.

### Portability of Transfer-Tax Exemption.

If a spouse dies and does not use his or her entire federal estate tax exemption, portability allows the surviving spouse to add the unused exemption to his or her federal gift and estate tax exemption. Portability was set to expire on December 31, 2012. ATRA makes portability permanent.

### Income Tax Rates.

Income tax rates for taxpayers with taxable income of \$400,000 (\$450,000 for couples filing jointly) or less will stay the same. Taxable income in excess of \$400,000 or \$450,000, as the case may be, will be taxed at an increased rate of 39.6%.

### Tax on Capital Gains and Qualified Dividends.

Income tax rates for taxpayers with taxable income of \$400,000 (\$450,000 for couples filing jointly) or less will stay the same. Taxable income in excess of \$400,000 or \$450,000, as the case may be, will be taxed at an increased rate of 39.6%.

### Alternative Minimum Tax (AMT).

ATRA permanently increased the individual AMT exemption, and the AMT exemption is now indexed for inflation. This change will prevent nearly 30 million taxpayers from being subject to the AMT tax.

### Personal Exemption Phase Out (PEP).

The PEP is reinstated beginning January 1, 2013. PEP will apply to individual taxpayers with taxable income in excess of \$250,000 and married taxpayers with taxable income in excess of \$300,000. These dollar amounts are indexed for inflation.

January 14, 2013

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## Limitation on Itemized Deductions.

For tax years beginning after 2012, itemized deductions for individual taxpayers whose adjusted gross income exceeds \$250,000 (\$300,000 for couples filing jointly) will be limited. The total amount of a taxpayer's itemized deductions will be reduced by 3% of the amount by which the taxpayer's adjusted gross income exceeds the threshold amount. The limitation cannot exceed 80% of your total itemized deduction. The threshold amounts are also adjusted for inflation.

As always, do not hesitate to call us if you have any questions regarding a particular provision of ATRA.

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