

## TAX & TRANSACTIONS BULLETIN

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***Federal Estate Tax Credit  
 Rises to \$2 Million***

- For calendar year 2007, the Federal estate tax credit remains at \$2 million
- Every individual may transfer \$2 million at death tax-free
- With Proper Planning, a married couple may transfer \$4 million at death tax-free
- The Generation Skipping Tax (GST) Credit increases to \$2 million
- The Illinois estate tax credit also remains at \$2 million

### ESTATE TAX CREDIT REMAINS AT \$2 MILLION

For calendar year 2007, the Federal Estate Tax Credit<sup>1</sup> remains at \$2 Million. The Estate Credit is great news for the Family. With proper planning, a married couple currently may transfer \$4 million to their children tax-free. This tax savings increases Family wealth.

People often desire to keep their wealth within the Family. Typically, a married couple distributes assets for each other during their joint lifetimes, and then distributes assets to younger generations. These distributions are subject to 3 transfer taxes: Gift tax, Estate tax, and Generation Skipping tax (GST). These taxes are inter-related, and apply to all transfers of wealth from one individual to another.

Each tax has its own Credit. The Credit reduces tax on a dollar-for-dollar basis. A Credit thus permits tax-free transfers of Family wealth. The Credits assist a married couple in providing for each other during their joint lifetimes, and then distributing property to their children and grandchildren. Careful planning with Credits can maximize Family tax savings.



The Tax Credits,<sup>2</sup> respectively, are as follows:

<u>Year</u>	<u>Federal Estate Credit</u>	<u>Federal Gift Credit</u>	<u>Federal GST Credit</u>	<u>Illinois Estate Credit</u>
2002 - 2003	\$1,000,000	\$1,000,000	\$1,120,000 <sup>3</sup>	\$1,000,000
2004 - 2005	\$1,500,000	\$1,000,000	\$1,500,000	\$1,500,000
2006 - 2008	\$2,000,000	\$1,000,000	\$2,000,000	\$2,000,000
2009	\$3,500,000	\$1,000,000	\$3,500,000	\$2,000,000

Note that both the Federal Estate tax and GST tax are scheduled to be repealed for individuals dying in 2010. Each tax is then reinstated in 2011. Many practitioners expect Congress to enact legislation prior to 2009, to clarify this situation.

<sup>1</sup>Every U.S. taxpayer receives an Applicable Exclusion Amount which permits tax-free gifts during life or tax-free bequests upon death. This Applicable Exclusion Amount thus functions as a credit to reduce tax, and is conveniently referred to as the "Tax Credit".

<sup>2</sup>Although both the Estate and GST Credits have increased since 2003, the Gift Credit did not increase. Thus, although a person may transfer \$2 Million at death tax-free, a person may transfer only \$1 Million during life tax-free. This discrepancy reflects the fact that Congress might lower the Estate Credit in the future. Congress does not want an individual to make tax-free lifetime gifts now, which exceed the amount the individual could transmit tax-free at death in the future.

<sup>3</sup>The GST credit was \$1,100,000 in 2002, and \$1,120,000 in 2003.

## ESTATE TAX CREDIT REMAINS AT \$2 MILLION (cont'd)

Additional Federal tax laws which became effective January 1, 2007, are:

- The annual exclusion for gifts remains at \$12,000.
- The annual exclusion for gifts to a non-citizen spouse increases to \$125,000.
- The maximum Gift/Estate tax rate (and flat GST rate) is 45%.
- Note the state death-tax credit was previously eliminated. For decedents dying after 2004, a Federal deduction is allowed for state death taxes paid.<sup>4</sup>
- Note the deduction for a qualified family-owned business interest ("QFOBI") was previously repealed for estates of decedents dying after December 31, 2003.

<sup>4</sup> Code Section 2058(a).

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