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Dear Clients and Friends,

As you have no doubt heard discussed in the media, the “fiscal cliff” is rapidly approaching. Included in this “fiscal cliff” is the expiration of some very beneficial estate and gift tax exclusions and tax rates. Until December 31, 2012, the amount you can currently transfer, either during life or at death, without incurring any gift, estate, or Generation-skipping Transfer (GST) tax, is \$5.12 million. Unless Congress changes the law, this amount, which is referred to as the “applicable exclusion amount”, is scheduled to drop to only \$1 million on January 1, 2013. In other words, if your net worth is more than \$1 million, more of your assets are likely to be subject to estate taxes as of the New Year. Furthermore, although the top gift, estate, and GST tax rate (it's a unified tax system) is only 35% this year, it too is scheduled to jump to 55% at the same time (60% for certain estates valued over \$10 million).

If you are not comfortable with giving the full \$5.12 million (that amount may not be appropriate, depending on your net worth, as well as your lifestyle needs and desires), you can transfer lesser amounts and still benefit from future estate tax savings. Furthermore, you don't have to use any of your “applicable exclusion amount” for gifts if you make what are known as “annual exclusion gifts” to your children or other donees. The “annual exclusion”, which is adjusted for inflation each year, is \$13,000 for 2012. The exclusion covers gifts on a per donee, per year basis. Thus, if you have three children, you can transfer a total of \$39,000 to them every year with no federal gift taxes. If you're married with three children, you and your spouse can each gift this amount, for a total of \$78,000. If those are the only gifts you make during the year, you won't even need to file a federal gift tax return.

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If you are comfortable with giving away more than your \$13,000 “annual exclusion amount”, the excess will be a taxable gift. But, your otherwise taxable gift won't result in a gift tax liability because it will be protected by your \$5.12 million “applicable exclusion amount”. However, as you use this amount to protect against gift tax for gifts made while you are alive, it reduces (or eliminates) the amount available to protect against the federal estate tax at your death. It is generally thought to be better to make gifts during your lifetime to use up your “applicable exclusion amount”, as any appreciation in value of the gifted asset that occurs after the gift is made escapes taxation in your estate when you die. Additionally, with the expected reduction in the “applicable exclusion amount” coming after the year end, taking advantage of the current high “applicable exclusion amount” through gifting before year end would be advisable.

More sophisticated means of gifting, utilizing various types of trusts, are available to maximize the amount that you can gift while still staying within the limits of the “applicable exclusion amount”. If you are charitably inclined, there are tax-advantaged ways to make a gift to a favorite charity while enjoying the income from that gift for your lifetime.

With the upcoming changes in the estate and gift tax exclusions and tax rates, it is more important than ever to take advantage of the current rates and exclusions.

My partners and I would be happy to discuss any of these ideas with you and coordinate with your estate planning attorney their implementation.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'Chris Morris', with a long horizontal flourish extending to the right.

Christopher D. Morris, CPA