



# Financial Focus



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## Portability of Basic Exclusion Amount between Spouses

Transfers of property during life or at death are generally subject to federal gift or estate taxes. Each taxpayer has an applicable exclusion amount, which is the amount of property that can be sheltered from federal gift and estate taxes by the unified credit. Prior to 2011, each spouse was entitled to his or her own applicable exclusion amount, and any amount that a spouse did not use was lost, absent special planning. But, thanks to legislation passed in 2010, the estate of the first spouse to die can now elect to transfer any basic exclusion amount that is not used to the surviving spouse. This is known as "portability." For 2011 and 2012, the applicable exclusion amount is redefined as equal to the sum of the basic exclusion amount of the surviving spouse and the unused basic exclusion amount of the last deceased spouse. For 2011 and 2012, the basic exclusion amount is \$5 million (plus indexing in 2012). Portability of the exclusion between spouses and an increase in the basic exclusion amount would seem to make

estate planning easier for many estates. However, unless extended by Congress, in 2013, portability of the unused basic exclusion amount between spouses is set to expire and the exclusion is scheduled to decrease to \$1 million.

### *Simple planning with portability*

If you're planning today, you could transfer everything to your spouse and, if you die in 2011 or 2012, your estate can elect to transfer your unused basic exclusion amount to your surviving spouse. Your spouse will then have an applicable exclusion amount equal to the sum of his or her own basic exclusion amount and your unused basic exclusion amount, which your spouse can use for gift or estate tax purposes. For example, if you transfer your \$5 million unused basic exclusion to your surviving spouse, who also has a \$5 million basic exclusion

amount, your spouse then has a \$10 million applicable exclusion amount to shelter property from gift and estate taxes. Such simple planning might be very practical for some married couples, especially where the spouses' combined estates are expected to be less than the applicable exclusion amount.

### *Potential need for more complex planning*

There are a number of reasons why such simple planning with portability may not produce the desired or best results. These include:

- Portability is set to expire in 2013, and tax rates are scheduled to increase while the applicable exclusion amount is set to decrease.
- You have family members or individuals

## At a Glance

- **Deadline:** Quarterly estimated tax payment is due on September 15th (if required).
- **Watch for Social Security updates.** September is generally the month that next year's cost-of-living adjustments are announced.
- **Visit us at** [www.chapelcollins.com](http://www.chapelcollins.com) for more newsletters, helpful resources and market updates.

### Inside this issue:

<i>Portability of Basic... (continued)</i>	2
<i>New Client Service Manager</i>	2

RSVP REMINDER!

Our annual client appreciation event is coming up on Friday, September 23, @ 5PM at the Hilton in Fort Collins. If you haven't already sent back your RSVP it's not too late! We would love to see you and share this special evening with you.

Please call us at 970-204-1376 or email [erin.waszkievicz@raymondjames.com](mailto:erin.waszkievicz@raymondjames.com)

## Portability of Basic Exclusion Amount between Spouses

Continued from page 1

other than your spouse that you would like to benefit prior to the death of your spouse.

- You have grandchildren or younger generations that you would like to benefit. The \$5 million generation-skipping transfer (GST) tax exemption is not portable between spouses (and is scheduled to decrease to \$1 million as indexed in 2013). State exclusion amounts may be lower than the federal applicable exclusion amount and may not be portable between spouses.

### Use of A/B trust arrangement

Prior to the 2010 legislation, many married couples with estates that were greater than the applicable exclusion amount would set up an A/B (or A/B/C) trust arrangement. In general, the first

spouse to die would transfer an amount equal to the applicable exclusion amount to the "B" or credit shelter (bypass) trust. The B trust could benefit the surviving spouse and their children, but the B trust would be designed to bypass the surviving spouse's estate. The balance of the estate would be transferred to the surviving spouse, either outright or by using an "A" marital trust, and qualify for the marital deduction. In some cases, a "C," "Q," or QTIP marital trust was also used if the first

spouse to die wanted to control who received the marital trust property at the second spouse's death. The A/B trust arrangement typically assured that there would be no estate tax at the first spouse's death and that neither spouse's applicable exclusion amount was wasted. An A/B trust arrangement may still be useful whether or not portability is available. For example, the B trust can assure that the applicable exclusion amount of the first spouse to die is not lost, even if portability is not available in the future. The B trust can be

used to provide for family members or individuals other than your spouse (and even your spouse) prior to the death of your spouse. You could also allocate your GST tax exemption or state exclusion to the B trust. The A trust could use your spouse's applicable exclusion amount, GST tax exemption, and state exclusion.

### Review estate plans and documents

Your documents and plans may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. To help guide you through these opportunities and uncertain times, consult an experienced estate planning attorney. *Content courtesy of Forefield and Broadridge Investor Communication Solutions.*

*Your estate plans and documents may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. Flexibility will be key.*

## Welcome the Newest Associate



Chapel & Collins wants to welcome the newest Client Service

Manager to our team! Megan Hazard comes to us as a graduate of the University of Nebraska-Lincoln. She received her Bachelor of Science in Business Administra-

tion with majors in Finance and Accounting. Megan grew up in the San Luis Valley; Saguache, CO, and will be working in our Fort Collins office. When she is not

working, she enjoys spending time with her fiancé, Matt as they plan their September wedding!

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