The Private Landowner Center

The Economic Growth and Tax Relief and Reconciliation Act of 2001

The Tax Act of 2001 (as it is popularly called) lowers federal estate tax rates, increases federal estate tax exemptions, and, ultimately, in 2010, eliminates federal estate taxes for anyone who dies during that year. What makes these changes difficult to understand and challenging for tax advisors to cope with is that the new regulations are only in effect until December 31, 2010, unless Congress decides to make other changes or pass a new law in the interim. On January 1, 2011, the estate and gift tax rates and the estate tax exemption return to the levels in effect in 2001. The federal estate tax is an excise tax on your right to transfer property upon your death. Your gross estate is figured by looking at the fair market value of all of your assets at the time of your death (including insurance policies). For many years, the federal estate tax exemption (that dollar amount of assets that are exempt from federal estate taxation) sat at $600,000 per person. That figure was changed by Congress in the late 1990s and again changed in the Tax Act of 2001. Today, in 2003, the federal estate tax exemption sits at $1,000,000. The current federal estate and gift tax rate has dropped to 50%. The federal gift tax exemption has been set at $1,000,000 and will remain at that level through 2010. The following chart indicates the changes to occur in the federal estate tax exemption and the federal estate tax and gift tax rates between now and January 1, 2011.

Estate and Gift Tax Exemptions and Rates

Estate and Gift Tax Exemptions and Rates

Tax Year	Estate Tax Exempxtion	Maximum Estate $ Gift Tax Rate
2002	$1,000,000	50%
2003	$1,000,000	49%
2004	$1,500,000	48%
2005	$1,500,000	47%
2006	$2,000,000	46%
2007	$2,000,000	45%
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	Estate Tax Repealed	35% for gifts only
2011	$1,000,00	55%

NOTE: The gift tax exemption remains level at $1,000,000 in all years.

Some other points to consider - The annual maximum gift tax exclusion amount has been raised from $10,000 to $11,000. Lifetime gifts which exceed the annual exclusions of $11,000 per person per year will reduce the decedent's Estate Tax credit. Transfers between spouses who are both U.S. citizens will generally qualify for the Unlimited Marital Deduction and will be free from any current tax. If the value of your estate assets decline within the first six months after your death, the value of those assets at that six month point may be used on your estate tax return. Also, be aware that certain transfers made during your lifetime may be considered to be part of your estate. In particular, the transfer of insurance policies within three (3) years prior to your death will result in the policies being considered part of your estate. The same is true of a transfer of an asset from a donor who retains an income for his/her life.