

IRS Raises Gift Tax Limit for 2013

by Frank L. Brunetti on November 26, 2012

Some business owners and high net-worth individuals facing significant tax uncertainty are taking advantage of the existing gift tax law as a strategy for transferring wealth to new generations. However, the Internal Revenue Service announced the inflation adjustments for 2013, which raises the current gift tax limit.

At present, Americans are permitted to gift up to \$13,000 without triggering a tax, or \$26,000 for married couples filing jointly. Under the 2013 adjustment, this allowance will rise to \$14,000, or \$28,000 for joint filers, the increase of which may benefit business owners who utilize the gift tax law as a succession strategy for passing assets to company associates or relatives.

In addition to this change, the federal tax agency will also increase contribution limits for retirement accounts. The 2013 limit will rise from its current \$17,000 to \$17,500. Catch-up contributions for investors 50 and older will remain unchanged at \$5,500. These increases should also be incorporated into business owners' and affluent individuals' wealth-building and estate-planning strategies.

While these adjustments may facilitate greater transfers of wealth, tax uncertainty surrounding the impending expiration of the estate tax law continues. The current estate tax exemption of \$5.12 million - or \$10.24 million for married couples - is set to expire after December 31, 2012, and revert back to \$1 million. Further, the tax rate on transfers above those exemptions is set to increase from 35 to 55 percent.

In response to the high level of uncertainty, advisors and legal professionals have reported an uptick in the number of business owners and affluent clients utilizing trusts as a strategy for keeping wealth intact and passing assets onto future generations.