

Al Holifield
Tina Haley
Virginia Couch
Sarah R. Johnson
Kelly P. Mann
Kathy Eyman

8351 E. Walker
Springs Lane
Suite 303
Knoxville, TN 37923
(865) 566-0115
(865) 566-0119 fax

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As a service to our clients, Holifield & Associates, PLLC periodically issues a newsletter to keep you informed of developments in statutes, regulations, and case law in the field of estate planning. If you would like any assistance or further information about any of the matters described in this update, please call, and we will be happy to discuss these issues with you further.

Tennessee Repeals Gift Tax/Federal Exemption for Gift Taxes at an All-Time High until January 1, 2013

The Tennessee legislature repealed Tennessee's tax on gifts effective January 1, 2012. Also, the federal exclusion amount for gift taxes for calendar year 2012 is at an all-time high of \$5.12 million. Combined, a couple can pass \$10.24 million free of federal transfer taxes in 2012, but the tax law that enacted this favorable exclusion did so only temporarily. Unless Congress takes further action, the gift tax exclusion returns to \$1 million on January 1, 2013. The gift tax rate at present is 35 percent. This rate also expires at the end of

2012 and will return to 55 percent in 2013, absent congressional intervention. Therefore, the window of opportunity to make large tax-free gifts is closing quickly!

Many people use these types of gifts as an alternative avenue for passing on a portion of their children's inheritance tax-free. The gift tax exclusion also applies to assets put into trust.

Gift tax may apply to gifts of real estate, the right to receive income from property, cash or other assets. Also, if something is sold for less than its full value or if an interest-free or reduced-interest





The Tennessee legislature reformed Tennessee's inheritance tax earlier this year to phase out the inheritance tax by 2016.

Tennessee Phases Out Inheritance Tax

The Tennessee legislature reformed Tennessee's inheritance tax earlier this year to phase out the inheritance tax by 2016. The inheritance tax is only assessed on an estate when the total value of the estate exceeds the exemption. The total estate could include real estate in Tennessee, vehicles, bank accounts, investment accounts, retirement account fund, business interests, proceeds from life insurance, assets held in a revocable living trust, along with other assets. The inheritance tax exemption in Tennessee will increase until 2016, as set out in Chart 1.

2012	\$1,000,000
2013	\$1,250,000
2014	\$2,000,000
2015	\$5,000,000
2016	no tax for decedents dying in 2016 and thereafter

Inherited amounts over the exemption are taxed at the following rates in Tennessee found in Chart 2.

First \$40,000	5.5%
Next \$40,000 – \$240,000	6.5%
Next \$240,000 – \$440,000	7.5%
\$440,000 and over	9.5%

The Tennessee inheritance tax exemption must be considered along with the federal estate tax exemption, which is set to decrease from the current exemption of \$5.12 million to \$1 million on January 1, 2013. Please contact Sarah Johnson in our office to schedule an overall assessment of your current estate plan.



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loan is given, the transaction or a portion of the transaction may be considered a gift to which gift tax may be assessed.

Be sure to take advantage of the all-time high federal gift tax exemption before the end of 2012! Please contact Sarah Johnson in our office for assistance.