UBS

Wealth Planning *Alert*

November 2011

Tax Alert: Potential Changes in the Estate and Gift Tax Landscape in 2011

As you may be aware, the Budget Control Act of 2011 was signed into law on August 2, 2011, and created a new Joint Select Committee on Deficit Reduction (sometimes referred to as the "Super Committee") which is made up of six Senators and six Representatives. The Super Committee has been tagged with the daunting task of presenting deficit reduction proposals by November 23, 2011. The Super Committee's proposals will be sent to Congress for an "up or down" vote (no amendments).

Various proposals are currently before the Super Committee, but there has been considerable buzz about possible immediate changes to the current estate and gift tax laws. Consequently, there is rising concern that the opportunity to utilize the $5 million gift tax exemption may disappear as early as November or December 2011 and that other "go to" estate planning strategies may be altered significantly or eliminated altogether. These possible developments are catching the attention of many estate planning professionals who are encouraging their clients to "fast track" wealth transfer strategies they may have been considering.

What is the buzz about?

Some proposals affecting gift and estate tax planning strategies are:

- A decrease in current estate and gift tax exemptions from $5 million per person to $1 million per person at or prior to the end of 2011;

- Reducing or eliminating discounts associated with gifts or transfers of certain limited partnerships and other entities; and

- Eliminating short term Grantor Retained Annuity Trusts (GRATs).

Is time running out?

The UBS U.S. Office of Public Policy has been and continues to monitor Super Committee discussions and negotiations. Currently, they do not anticipate that estate and gift taxes will be changed as part of the current deficit reduction effort but will continue to pay close attention. Estate and gift tax exemptions are already scheduled to decrease in 2013, so a reduction for 2012 is short lived and would likely not be impactful enough to warrant the Super Committee's immediate time and effort. Increasing the gift tax now, for one year (by reducing the exemption amounts), would not move the deficit reduction needle a meaningful degree and is a political hot button, so it is not likely to be worth the effort at this point.*

Changes to other estate planning strategies such as valuation discounts and GRATs could be more attractive. Eliminating or limiting valuation discounts and eliminating short term GRATs could help with revenue for a longer period of time (rather than just one year). Yet, even longer term changes like these would only make a relatively small impact on the Super Committee's $1.2 trillion goal.*

What is the bottom line?

The bottom line is that there are no guarantees that the estate and gift tax exemptions will escape the Super Committee's scrutiny, but there are other areas that are more impactful and thus more important to deficit reduction efforts. However, if you want to mitigate your family's exposure to estate and gift taxes, and are considering planning tools that would take advantage of the increased exemptions, you may want to act sooner rather than later even if the Super Committee leaves this issue alone. We will continue to closely monitor and keep you informed. Stay tuned!

*Comments provided by Peter Rowan, UBS U.S. Office of Public Policy.

For questions on this distribution, please contact your Financial Advisor.