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Important Inflation Adjustments in 2012 to Applicable Exclusion And GST Amounts

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On October 20, 2011, the IRS released Revenue Procedure 2011-52, which announced inflation adjustments to the applicable exclusion amount beginning in 2012. For an estate of any decedent dying during calendar year 2012, the applicable exclusion is increased from \$5 million to \$5.12 million. This change increases not only the applicable exclusion amount available at death, but also a taxpayer's lifetime gift applicable exclusion amount and generation skipping transfer exclusion amount.

The \$13,000 gift annual exclusion has not been increased.

Note that the present tax law provides that if there is no change in the law prior to December 31, 2012, the applicable exclusion will be reduced to \$1 million, subject to inflationary adjustment. Due to this potential decrease in the lifetime gift exclusion, now is the time to seriously consider gifting options before they are limited.

Other items of note that also are subject to inflationary adjustment in 2012 include the social security wage base, which increases from \$106,800 in 2011 to \$110,100 in 2012, and the maximum amount that can be deferred into a 401(k) from \$16,500 to \$17,000.

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