The Madison Group, Inc.

The Proposed 2012 Budget:
A Call to Action for Estate Planning

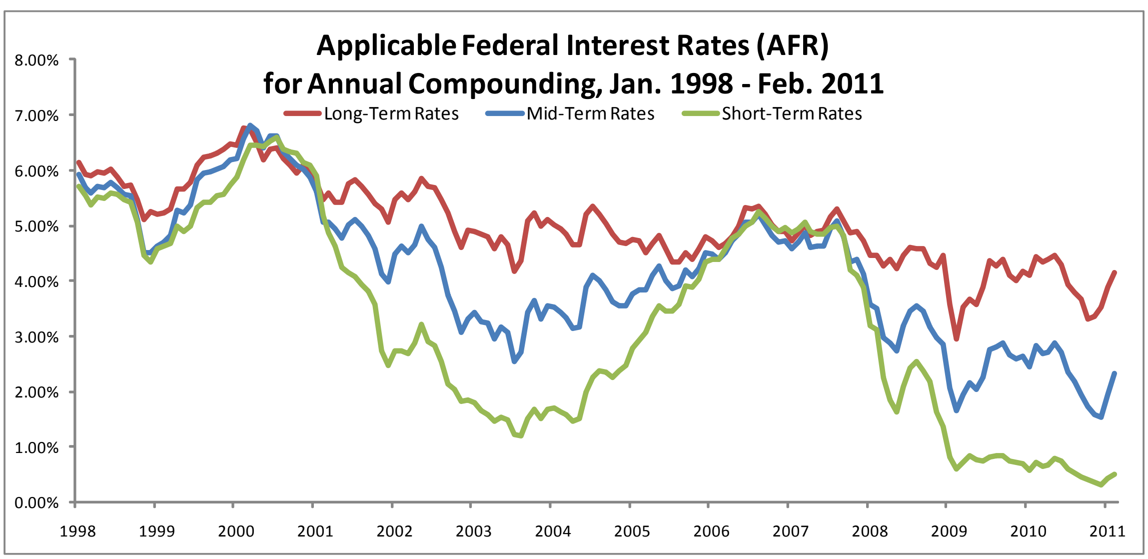
On Dec. 17, 2010 a new tax bill was signed into law that provides affluent families unprecedented estate planning opportunities. The unification of Gift, Estate and GST Lifetime Exemptions at $5M gives every individual the ability to make significant additional gifts without incurring gift taxes. As the law stands now, the gift and estate tax exemptions return to $1M on Jan. 1, 2013.

The expected changes in Gift, Estate and GST Taxes after 2012 has led many families and advisors to conclude that 2011-2012 presents a valuable two-year window of opportunity to update and often dramatically improve estate plans for affluent families. However, the following developments suggest that the best results may be obtained by acting sooner rather than later.

- On Feb. 14, 2011 President Obama released his Proposed 2012 Budget. His budget suggested the following estate tax "reforms:" 1) Limitation on the use of valuation discounts, 2) A minimum GRAT Term of 10 years and 3) Limiting the duration of GST Exemption to 90 years. If implemented for 2012, as proposed by the President, any one of these proposals would significantly diminish the effectiveness of commonly used estate planning techniques that may result in additional tax. If any of these strategies is a potential solution in your situation, the best defense against this threat may be to move forward with planning and implementation under current tax law.

- Many estate planning strategies work more effectively when interest rates are low. Federal interest rates have increased since their all-time lows in 2010 but are still historically low as illustrated by the following graph. If interest rates continue to increase, the leverage provided by interest rate sensitive strategies will be curtailed.

	Short-Term	Mid-Term	Long-Term
February 2011 AFR	0.51%	2.33%	4.15%
Historical Ave. (1/98-2/11) AFR	3.32%	4.17%	5.01%



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- The bright side of the economic downturn from an estate planning prospective is that many asset values are low. This means that a larger proportional ownership interest may be transferred for the same gift value, this is especially true when discounting is used.

- The President's Proposed Budget assumes a baseline estate tax exemption at 2009 levels with a $3.5M exemption and a 45% tax rate. This gives us an idea of the President's negotiating position on this issue. It also reminds us that there is a good chance that we will see a decline in the estate tax exemption and/or an increase from the current 35% tax rate. The exact language used in the budget was, "Extend estate and gift taxes beyond 2011 at 2009 parameters." So, his proposal is to implement this tax increase starting in 2012 not 2013.

The future of estate taxes is difficult to predict. However, what we do know is what we have to work with now and most planners agree that we currently have more tools than we have ever had or probably will have in the future. Our advice to clients is to be proactive about meeting with advisors and moving to implement planning sooner rather than later. If you would like to discuss this update or other issues, feel free to call the advisor you work with at The Madison Group or contact Shawn M. Tidwell, CPA by email at stidwell@themadisongroup.com.