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CPS in the News

Events this month

“Money Matters”

Saturday Mornings

9:00 am on

1430am WLKF

CPS First Thursdays:

College Planning

Location:

FSC Campus

Carlisle Rogers

Building

Date: 7/1/2010

Contact us for more information

ESTATE TAX 2010: I’m Just Supposed to Sit and Wait?

A recent Congressional Research Service (CRS) study examined various estate tax options which Congress is considering to address. This option discussion observes the uncertainty surrounding the estate tax. As a result of The Economic Growth and Tax Relief Act of 2001, there is currently no estate tax in 2010. It is scheduled to come back in harsher terms for those who will be deceased in 2011 and beyond.

Regardless of all the variables, one thing is for sure: The estate tax will continue. The CRS study notes that the 2010 provisions will not be continued, and may be repealed retroactively. Due to this, President Obama proposed a permanent extension of the 2009 rules (a \$3.5 million exemption and a 45% tax rate), and the House of Representatives provided for that permanent extension on Dec. 3, 2009. However, that bill did not pass the Senate. The Senate Democratic leadership has championed a plan to retroactively reinstate the 2009 rules for 2010 and beyond, while Republican leaders proposed an alternative of a 35% tax rate and a \$5 million exemption.

Absent a change in the statute, the estate tax will revert to an exemption of \$1 million and a tax rate of 55%. The two most common exemption levels being considered are \$3.5 million and \$5 million, and the two most common rates being considered are 45% and 35%. However, some proposals would apply the capital gains tax rate (currently 15% but scheduled to go to 20% in 2011) or some multiple of it.

Estate Tax 2010: What Can I Do to Prepare?

Talk to an Advisor

This all sounds well, but what should I do if my Uncle passes away in 2010? Even if he doesn't pass away in 2010, how can I plan for the future? Consulting your financial planner or estate planning attorney is a good start. They can assist you in reviewing your will and the terms of any trusts that have been set-up and point out where the exemption amount plays a role. The exemption amount can play a critical role in determining beneficiary income. This is particularly tricky for "bypass" trusts whereby the children would typically receive up to the exemption amount with the rest going to the surviving spouse.

Get the Facts

Start gathering information about the basis in your property (securities, real estate, etc). For 2010, the law allows a \$1.3 million step-up in basis for property left to anyone, plus an additional \$3 million step-up for property left to a spouse. Other planning ideas include gifting portions of your estate up to the yearly legal limits (currently at \$13,000/person in 2010 up to \$1 million in the aggregate during your lifetime).

Take Precautions: Know Your Options

The unfortunate situation we are in right now is that the estate tax is in limbo, until Congress decides to do something. If Congress does not do anything, and without proper planning, the existing law will potentially subject an enormous amount of middle class citizens to the estate tax beginning in 2011. If someone you know or are related to dies in 2010, the best advice is to wait and see what happens with the law, and to work closely with your advisors until Congress acts on the issue.

We will keep you posted.....



Source: 2010 Thomson Reuters/RIA; FORBES May 2010

