

## **ESTATE TAXES – What to Expect in 2013 if NO Deal is reached?**

*By Chad Hoekstra, HH Advisors*

The current estate tax, set at 35% with an exemption of \$5,120,000, is set to expire on December 31, 2012. These rates are part of a compromise between President Obama and Senate Republicans that took place in 2010. The exemption is up to \$5,012,000 in 2012 (from \$5,000,000 in the calendar years 2010 and 2011) due to an inflationary adjustment provided by the law. The Senate passed a measure in 2012 that extended some of the income tax cuts currently in place from the Bush-era through 2013 but the estate tax was not included, by design. The House also passed a bill that does include an extension of the estate tax policy through 2013. A lot of professionals believe it is unlikely, however, that Congress will be able to get a law passed in this election year to extend the current provisions. If this is the case, on January 1, 2013, the estate tax will revert to 2001-2002 rates, with a 55% tax and an exemption of \$1,000,000.

The likelihood is greatest for the estate tax to revert to 2001 rates since as of December 27, 2012 there is NO compromise and its appears Time has expired on a DEAL prior to year end. However, there are a number of scenarios that could take place when real talks begin:

- President Obama favors a 45% rate and a \$3,500,000 exemption, as seen in his budget proposal and in the rates in effect in 2009, his first year in office. On January 1, 2013, with this provision in place, an estate valued at \$3,500,000 or less would be exempt from tax but more than this would be taxed at 45%, resulting in a tax bill for a \$6,000,000 estate of \$1,125,000, over \$800,000 more than current rates.
- As of January 1, 2013, a \$6,000,000 estate would have a tax burden of \$2,750,000. This is almost 9 times the tax bill than current rates.
- A group of Republicans heavily favor repealing the estate tax altogether but struggle to get the backing they need to pass this drastic of a bill. In this scenario, even a \$6,000,000 estate would have no tax burden.
- There is always the slight possibility that someone could come up with a completely different proposal, as well.

Good estate planning with a good portfolio of advisors is key in this uncertain and possibly shifting environment even POST January 1<sup>st</sup>. There are many strategies available to minimize the tax burden on an estate. Most if not all strategies are somewhat complicated legally and can take time to establish. This is why planning is so important. The uncertainty of the tax code further highlights the importance of partnering with a knowledgeable professional or set of professionals.

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