

Estate Tax Change to Affect Nearly 15 Million Households

By James F. McDonough, Jr. on November 7th, 2012 Posted in Estate Tax, Estates

The current estate tax law conditions are expected to expire on December 31, 2012, if lawmakers fail to act. If the existing provisions are allowed to lapse, 14.7 million of the nation's individuals and small business owners may face additional tax liabilities, making it crucial that they take advantage of the lucrative estate tax benefits before the end of year, according to life insurance trade group LIMRA.

Small businesses and wealthy individuals are currently exempt from paying estate taxes on \$5.12 million worth of assets – or \$10.24 million if married filing jointly – and enjoy a 35 percent tax rate. Without government action, however, the estate tax exemption will revert to \$1 million with a 55 percent maximum tax rate.

“The uncertainty that has surrounded our estate tax laws has made it impossible for Americans to plan for a reasonable transition of their assets to the ones they love and to charity for the greater good,” said Robert Kerzner, president and CEO of LIMRA. “Today, there are three likely possibilities that Congress could adopt – if they address this issue before the end of the year – which would impact many American families and businesses.”

The authors noted that Congress may renew the current \$5 million exemption at the 35 percent tax rate or allow the current conditions to revert back to \$1 million at the 55 percent rate. The third option may be to compromise on the estate tax rules with a \$3.5 million exemption at a maximum 45 percent tax rate.

The study's authors noted that if the estate law is allowed to expire, the average amount households and businesses will pay in estate tax is \$1.4 million. As a result of these potentially high costs, tax professionals and estate planners have seen a spike in the number of businesses formulating succession plans and opening trusts to protect their assets. As the end of the year will remain busy for professionals trying to meet the December deadline, business owners with sizable assets are encouraged to satisfy their succession planning obligations quickly or run the risk of paying a large amount in taxes.