



## Ask a Trust Officer

### Federal estate taxes

DEAR TRUST OFFICER:

What's up with the federal estate tax? I heard that it's suspended next year, for one year only? Should I review my will?

—DEATH TAX TARGET

DEAR TARGET:

You heard correctly. As of January 1, under current law, the federal estate tax will be suspended, replaced by a complex new tax regime with the shorthand name "carryover basis." In effect, greater capital gains tax receipts would offset, to some extent, the loss of estate tax revenue at the death of wealthy individuals. After one year of that experience, the federal estate tax roars back in 2011, with a \$1 million exemption and a top tax rate of 60%. (In contrast, this year the exemption is \$3.5 million, and the top rate is 45%.)

This roller-coaster ride was built in 2001 for political and budgetary reasons. Unfortunately, the focus on health care reform has left precious little time for Congress to devote to estate tax reform. Consequently, the emerging scenario considered most likely is a one-year patch, extending the 2009 tax rules into 2010 only. That would permit the Congress to take more time next year to work out a comprehensive plan for taxation at death.

Cynics point out that it also gives Congress the opportunity to allow a major tax increase to be implemented through simple inaction. As resistance to deficit spending has mounted, the need for new tax revenue has grown.

What does all this mean for your estate plans? Vigilance will remain important, but a one-year patch will be less disruptive than the alternative of implementing carryover basis. Given the near-term revenue loss associated with doing nothing, Congress seems very likely to push something through late in the year.

Please contact one of our trust officers at (989) 779-6207 with any questions.

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