A Look to the Future

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None of us know what November will bring. Congress, no matter who takes over, can't seem to agree on anything except to blame the other side for things that can't get done or go wrong. As a CPA and attorney, I am quite tired of trying to plan an effective strategy with my clients with such uncertainty in the laws from year to year. With the polarization of Congress, I doubt that there will be any substantial tax laws passed before the expiration of the tax provisions mentioned below. I believe it is time to take a proactive approach to the upcoming tax changes and start to plan appropriately for what the worst case scenario may be, that Congress does nothing and lets all of the expiring tax laws expire and disappear on January 1, 2013. You only have a few months left to determine how these changes will affect you and plan appropriately. The most significant changes are:

- The gift and estate tax exemption will decrease from its current $5.12 million dollars to $1 million. Right now, until year end, this is a major opportunity for larger estates, especially here in Minnesota where there is no gift tax and estates are taxed on any amounts over $1 million. There would be significant tax savings to gift before year end.
- The maximum estate tax rate will go from 35% to 55%.
- Long-term capital gains are set to rise from 15% to 20%.
- Dividends will be taxed at your ordinary income rate instead of 15%.
- The 10% rate for the lowest income taxpayers disappears.
- Individual tax rates go up.
- The health care act will add an additional .9% to certain higher bracketed taxpayers.
- Higher income taxpayers will also be subject to a 3.8% Medicare surtax on net investment income.
- AMT needs another patch or (please) fix permanently. If not, most middle income taxpayers will be subject to alternative minimum tax.

Please consult your advisors to determine the best strategy for your circumstances.