

# A lot of uncertainty with estate tax

## Estate tax could return to 2001 levels

### if Congress doesn't act

BY STACY VOGEL DAVIS

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Patrick Mehigan never expected to be telling clients that the federal government is not charging an estate tax.

"None of us who practice in this area felt we would ever get to this point," said Mehigan, a partner in Deloitte Tax LLP's Milwaukee office.

Yet four months after Congress allowed the estate tax to expire, tax professionals still are waiting to see if the government will reinstate it this year.

The uncertainty surrounding the estate tax is one of several federal changes that happened in 2010 or are coming in 2011 that make wealth management, estate planning and retirement planning complicated right now, local tax experts said.

As part of tax cuts instituted in the George W. Bush administration, the estate tax was reduced gradually until it reached 45 percent after the first \$3.5 million of an estate. The estate tax disappeared completely Jan. 1.

Everyone expected Congress to extend the tax before it expired, but it got tied down with other issues — notably health care — and the tax was allowed to sunset,

Mehigan said.

Many tax professionals still expect Con-

gress to reinstate the tax before the end of the year, and it could make the tax retroactive, said Wil-

**NOT THAT MUCH**

**WITH PEOPLE'S LIFE**

**INSURANCE POLICIES**

and personal residences.'

**William Mayer**

Ritzholman CPAs

But Mayer believes

Congress will soften the change, perhaps by raising the exemption level.

"\$1 million in today's money is not that much with people's life insurance policies and personal residences," he said.

**MAKING GIFTS**

With the expected reinstatement of the estate tax, Mehigan is advising clients to think about making financial gifts while they're still alive. The federal gift tax rate is at a historic low of 35 percent — the highest income tax level — after the first \$1 million.

He's also advising clients to consider switching their retirement savings from traditional investment retirement accounts to Roth IRAs this year. With a Roth IRA, a person pays taxes on the money as it is

invested, not as it is withdrawn, meaning they pay no taxes on the interest.

Starting this year, a person can convert a traditional IRA into a Roth IRA no matter their income by paying income taxes on the amount in the account minus any nondeductible contributions. This year

only, they have the option of paying the taxes in 2010 or splitting the payments between 2011 and 2012.

**ANYWAY'**

**Patrick Mehigan**

Deloitte

Mehigan recommends clients consider converting if they expect to be in a higher tax bracket in the future.

"You're paying a tax that you would pay anyway," he said.

Other tax changes in 2011 include the scheduled expiration of many of the Bush tax cuts. If Congress takes no action, the changes could include raising the income tax from 35 percent to 39.6 for the top bracket, increasing long-term capital gains taxes from 15 percent to 20 percent and treating qualified dividends as ordinary income instead of taxing them at 15 percent.

President Barack Obama has proposed taxing dividends at the same rate as capital gains.

Mehigan recommends people try to accelerate their income for 2010 and defer deductions to later years to help soften the blow, he said.