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Client Alert

The Future of the Estate Tax and the Unified Tax Credit

THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT

In 2001, President George W. Bush signed into law the Economic Growth and Tax Relief Reconciliation Act (the "Act") in order to reduce an individual's tax liability upon the transfer of property at their death. Specifically, the Act called for a gradual increase in the Unified Tax Credit (the "Credit"), which reduces the total amount of assets in a decedent's taxable estate at the time of their death. Prior to the Act, the value of the Credit was One Million Dollars (\$1,000,000), thus, only the value of a decedent's estate in excess of this amount was taxable. At that time, the estate tax rate was set at 55%.

Since the enactment of the Act, the amount of the Credit has steadily risen, while the estate tax rate has simultaneously decreased. Currently, the Credit is valued at \$3.5 Million Dollars and the estate tax rate is 45%.

Furthermore, pursuant to the Act, the estate tax is set to be completely suspended for all estates created in the year 2010. Such estates will owe no taxes whatsoever, regardless of their size or value. However, the Act is set to expire in 2011 and, unless extended by Congress, both the Credit and estate tax will automatically return to their pre-2001 levels.

THE FUTURE

In response to the Act, the House of Representatives will be proposing new legislation to prevent the 2010 suspension of the estate tax, which they view as a necessary revenue generator for the federal government. At the same time, the Obama administration also has a plan that would also prevent the 2010 suspension of estate taxes but would extend the current 2009 estate tax rate and Credit value through 2011.

The proposals by the Obama administration and the House of Representatives are likely to be addressed soon as 2010 is rapidly approaching. It is important to keep abreast of these developments, as the expiration and/or amendment to the Act will have a significant impact on wealth management decisions for the foreseeable future.

Our Firm is intimately involved in monitoring these events and will continue to provide you with pertinent updates as more information becomes available. In the meantime, if you have any questions about the matters covered in this client alert, or wish to schedule a private consultation, please contact Terrence A. Oved, Esq. at Oved & Oved LLP, 212.226.2376 or terry@ovedlaw.com.