

# Sanli Pastore & Hill, Inc.

## THE LADY OR THE TIGER?

By James L. Greene

The relatively favorable estate and gift tax structure Congress has allowed for the past two years is in danger and could change drastically on January 1, 2013. Based on the recent partisan gridlock it is unlikely Congress will have time to take positive action on this matter as they will only have from November 7th until they adjourn for the year in December to agree.

In 2012, an estate with a net value of \$5,120,000 or less is exempt from the estate tax. In addition, the exemption allows individuals to make gifts during their lifetime of up to \$5,120,000 before December 31, 2012 without incurring a gift tax. However, these exemptions apply only until December 31, 2012. Unless Congress and the President take action, the favorable exemptions will expire and, as of January 1, 2013, the estate and gift tax exemptions will fall to \$1,000,000 and the tax rate on transfers above the exemptions will increase from 35 percent to 55 percent.

The bottom line is that the Federal estate and gift tax rules for 2013 and beyond will presumably not be known until after the election. Even then, Congress might not have time to extend these current favorable rules before they sunset.

Business owners who want to sell their companies now but must put off the sale to 2013 or beyond will be facing higher capital gains tax rates. The uncertainty surrounding this scenario coupled with a definite need to do something reminds me of a favorite and intriguing story from my childhood, "The Lady or the Tiger," by Frank Stockton.

In this fairy tale, the king constructs an elaborate public arena with a public notice stating that on an appointed day the fate of a subject would be decided in the arena. When the subject steps out into the amphitheater, he finds two doors, exactly alike and side by side. It is the duty and privilege of the selected subject to walk directly to these doors and open one of them.

Behind one door is a hungry tiger, the fiercest and most cruel that can be found, which will immediately spring upon him and tear him to pieces. Behind the other door is a lady who is the most desirable for the subject's years and station. If he opens this door the subject's reward is to be married immediately to the lady. The subject steps up to a door and opens it. That is where the story ends.

We are challenged with the question: Does the tiger come out of the door selected, or does the lady? The author of the fable states that it is not for him to answer the question. Instead he leaves it to all of us: Which came out of the opened door----the lady or the tiger?

That was a fairy tale, but this is real life. The doors are marked ACTION NOW and NO ACTION NOW.

Those opening the ACTION NOW door are proactive in dealing with their assets and estate



Image Credit: Ponshop Art Studio

planning goals and won't assume Congress will solve the problem down the road. They will be consulting with their trusted tax, legal and valuation advisors to maximize the benefits of estate planning and to minimize the likely increases in estate taxes. They will also explore the benefits of shifting portions of their estates now based on the wide held belief that estate, gift, generation skipping and income tax rates will likely increase in the future. This enables them to take advantage of current lower capital gains rates and allows for profit growth in the next generations' estates.

Those who choose to take action now know they only have a few months left in 2012 to develop and execute a plan including appropriate estate and gift valuations and appraisals before the existing estate and gift tax laws are set to expire.

For those at the NO ACTION NOW door, they can only hope there is no hungry tiger behind it waiting to devour their accumulated wealth through a return to lower estate tax exemption amounts and higher rates of realized capital gains tax.

Which door will you open?

**James L. Greene**

Mr. James Greene is the Director of Business Development for Sanli Pastore & Hill, Inc. Jim has more than eighteen years experience in marketing and business development for a wide range of professional services firms including valuation, public accounting, financial advisory and consulting in Southern California.



Click [here](#) to view his web profile

**CONTACT US:**

**Los Angeles Office:**

Nevin Sanli, [nsanli@sphvalue.com](mailto:nsanli@sphvalue.com)  
Thomas Pastore, [tpastore@sphvalue.com](mailto:tpastore@sphvalue.com)  
John Kirby, [jkirby@sphvalue.com](mailto:jkirby@sphvalue.com)

**CONTACT US:**

**Sacramento Office:**

Forrest Vickery, [fvickery@sphvalue.com](mailto:fvickery@sphvalue.com)

**San Diego Office**

Jim Greene, [jgreene@sphvalue.com](mailto:jgreene@sphvalue.com)