



MERCER CAPITAL'S

Value Matters™

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Consider the Alternate Valuation Date

As of December 3, 2008, the major stock indexes were down on the order of 40% for the year. In addition, the long-suspected recession has been officially declared. While the depth and length of the current recession is laden with uncertainty, what is certain is that virtually no investment sector has remained unscathed. For those dealing with an estate tax issue from within the last year, consideration of the alternate valuation date is almost certain to provide vital information for the estate tax filing process.

As part of the Economic Growth and Tax Relief Reconciliation Act of 2001, Section 2032 of the IRS Tax Code was designed to provide some measure of relief to those taxpayers negatively affected by fluctuating markets. The alternate valuation date provides taxpayers the option to choose to use a date six months subsequent to the date of death to value an estate. In order to choose this option, the following conditions and processes must apply:

- » The total value of the gross estate must be lower on the alternate date than on the date of death. The value on an alternate date must include the entire estate and cannot be applied to selected assets owned by an estate. An exception to this rule applies to any assets sold between the date of death and the alternate valuation date. Such assets are valued as of the date of disposal. This rule also makes it clear that two values must be known for the taxpayer to make an informed decision: the value at the date of death, as well as the value six months after the date of death.
- » The amount of estate tax must be lower using the alternate date than on the date of death. While this second rule would seem to always be the case if the first rule holds true, this is not the case for estates passing under the marital exclusion rule, or in other cases where the estate tax might be zero as of the date of death. If there is no estate tax to begin with, there cannot be a reduction in estate tax. However, should a surviving spouse decline certain assets, thereby triggering estate tax, this rule still applies. The estate tax used to calculate whether there is a decline in taxes, includes both estate and generation skipping tax.
- » Any assets that decline in value simply due to the passage of time must still be valued as of the date of death. The IRS has proposed a change to the regulation clarifying that only declines in asset value due to market conditions may be considered as of the alternate valuation date. The clarification states that declines in an asset's value due to an action of the decedent or estate, may not be considered as of the alternate valuation date.

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» The election to use an alternate valuation date, must be made within one year of the estate tax filing date. This election is irrevocable.

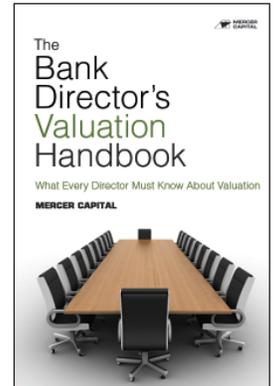
Although the alternate valuation date appears to generally be an attractive option in the current economic climate, one must consider the singular drawback that, if the alternate date provides a lower value, then it also results in a lower step up in basis for those inheriting the estate's interests. Therefore, any gains on assets sold at a later date will be larger than would be the case with a higher step up in basis at the date of death.

It should also be noted that not all states conform to the federal alternate valuation date, but rather require the use of date of death, which could cause the taxpayer to have a different basis for state and federal tax purposes.

Despite the lower step up in basis consideration, the alternate valuation date warrants serious consideration at any time, but particularly in the current economic environment for estates with a date of death within the last year. With no end in sight for the declining markets, tax savings may well be very significant.

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Understand the Value of Your Wholesale Distributorship of Malt Beverage Products	The financial landscape is littered with rules of thumb pertaining to the value of privately owned businesses. Perhaps in no other industry is the rule of thumb concept more prevalent than in beer distribution. It is critical that value be determined and articulated in a credible fashion.	Complimentary	<i>Currently Available</i>

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