



The Cost of Waiting:

What Pending Increases in Capital Gain and Estate Taxes Mean to You

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Capital Gain Rate

Current: 15%
Expected: 23.8%
2013 Rate Increase: 59%

Income Tax Rate

Current: 35% (top bracket)
Expected: 39.6% (top bracket)
2013 Rate Increase: 13%

Estate Tax Rate*

Current: 35%
Expected: 55%
2013 Rate Increase: 57%

Estate Tax Exemption**

Current: \$5,120,000 per spouse
Expected: \$1,000,000 per spouse
2013 Tax Increase: \$2,226,000 per spouse

Base Case Facts:

- 60 year old business owner
- Married, two grown children
- Owner's total net worth \$25,000,000
- Enterprise value of company \$20,000,000

Capital Gain Tax

Enterprise Value.....	\$20,000,000	\$20,000,000
Plus: Cash on Balance Sheet.....	\$750,000	\$750,000
Less: Outstanding 3rd-Party Interest Bearing Debt.....	(\$1,250,000)	(\$1,250,000)
Less: Transaction Fees.....	(\$1,000,000)	(\$1,000,000)
Pre-Tax Proceeds.....	\$18,500,000	\$18,500,000
Capital Gain Tax		
Current Federal Capital Gain Tax @ 15%.....	(\$2,775,000)	(\$2,775,000)
Current State Capital Gain Tax @ 6%.....	(\$1,110,000)	(\$1,110,000)
Capital Gain - Tax Cut Expiration @ 5.0%.....	\$0	(\$925,000)
Capital Gain - Medicare Tax @ 3.8%.....	\$0	(\$703,000)
Increased Capital Gain Tax Expense.....	\$0	\$1,628,000
Net to Seller.....	\$14,615,000	\$12,987,000

Estate Tax

Net to Seller.....	\$14,615,000	\$12,987,000
Net Worth Outside of Business.....	\$5,000,000	\$5,000,000
Total Net Worth.....	\$19,615,000	\$17,987,000
Estate Tax		
Estate Tax Exemption**.....	(\$5,120,000)	(\$1,000,000)
Spouse's Estate Tax Exemption**.....	(\$5,120,000)	(\$1,000,000)
Estate Tax Base.....	\$9,375,000	\$15,987,000
Estate Tax Rate*.....	35%	55%
Estate Tax.....	(\$3,281,250)	(\$8,792,850)
Increased Estate Tax Expense.....	\$0	\$5,511,600
Net to Second Generation.....	\$16,333,750	\$9,194,150

TOTAL INCREASED TAX EXPENSE FOR 2013 TRANSACTION.....\$7,139,600

* Model assumes estate tax paid in the year shown at then current applicable rate.

** Estate tax exemption may only be used once during lifetime, making 2012 a pivotal time to reduce taxes before exemption amount drops precipitously.