



Kirkpatrick & Lockhart LLP

Challenge us.

Tax-Wise Gifting

The More Things Change,
The More They Change

Effects of Tax Code Changes

- Phase Out of the Estate Tax: Rates move from 49% in 2003 to 45% in 2009 and to 0 in 2010.
- Estate Tax Credit equivalent moves from \$1 million to \$1.5 million in 2004, \$2 million in 2006 and \$3.5 million in 2009.
- The GST exemption tracks the estate tax credit equivalent.
- The gift tax credit equivalent remains at \$1 million.
- The gift tax rate moves with the estate tax rate and then shifts to 35% in 2010.
- Capital Gains reductions (from 20% to 15%).
- Dividends will be combined with net capital gains and taxed at the new rates.
- Rate changes in 2003 (the highest rate of 39.6% dropped to 35%).



On the Horizon: The “CARE” Act

- The Charity, Recovery and Empowerment Act of 2003 (CARE Act), if passed, is expected to provide incentives for individuals to give tax-free contributions from their Individual Retirement Accounts for charitable purposes.



Effect on Charitable Giving

- Let's say you have an asset with a value of \$100 and a basis of \$0. What does it cost (assuming you would otherwise sell the asset) to make a \$100 gift to charity?
- Under the old rates a \$100 gift to charity would only cost \$40.40 ($100 - 20 - 39.6 = 40.40$)
- Under the new rates the same \$100 gift to charity will cost \$50 ($100 - 15 - 35 = 50$)



Greater Cost of Charitable Gifts

Old Rates		New Rates	
Capital Gain	\$20	Capital Gain	\$15
Income Tax	\$39.60	Income Tax	\$35
Real Cost of \$100 Charitable Gift	\$40.40	Real Cost of \$100 Charitable Gift	\$50

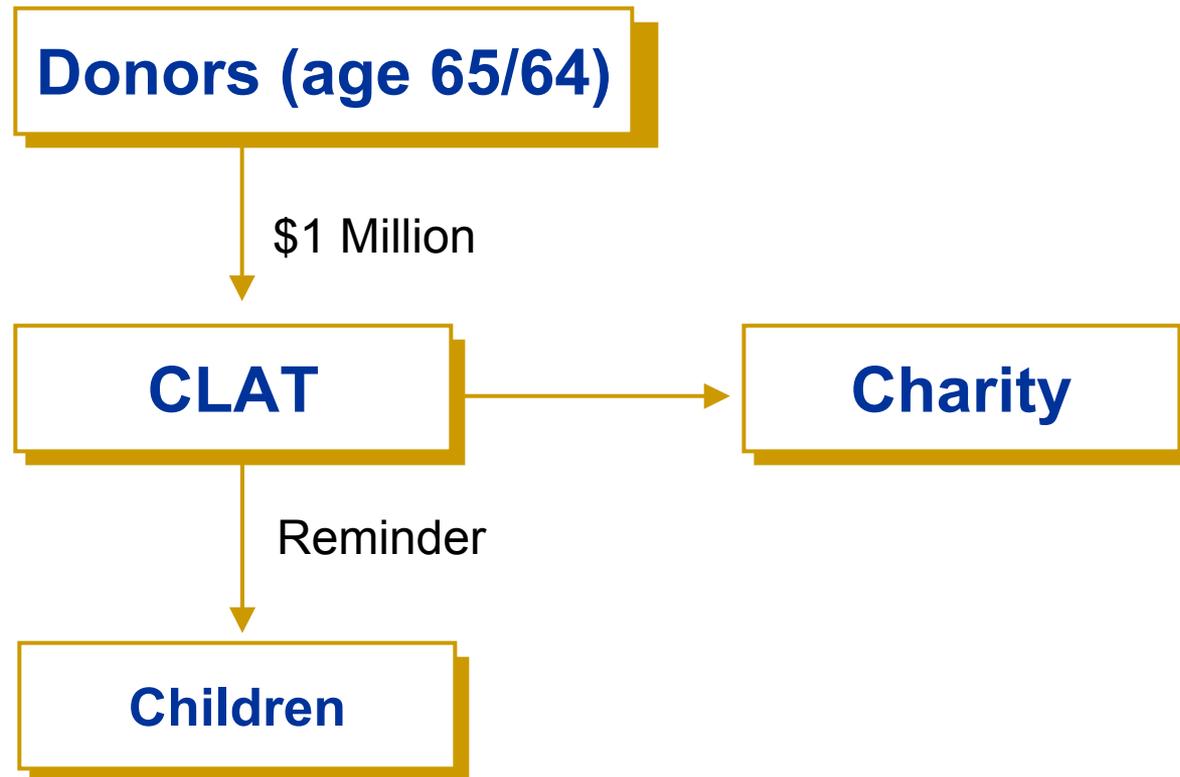


Charitable Lead Trust

- Offers a way to hedge against the “mortality risk” brought about by falling rates and increasing deductions.
- Zeroed-out CLAT can transfer appreciation to children without gift tax.

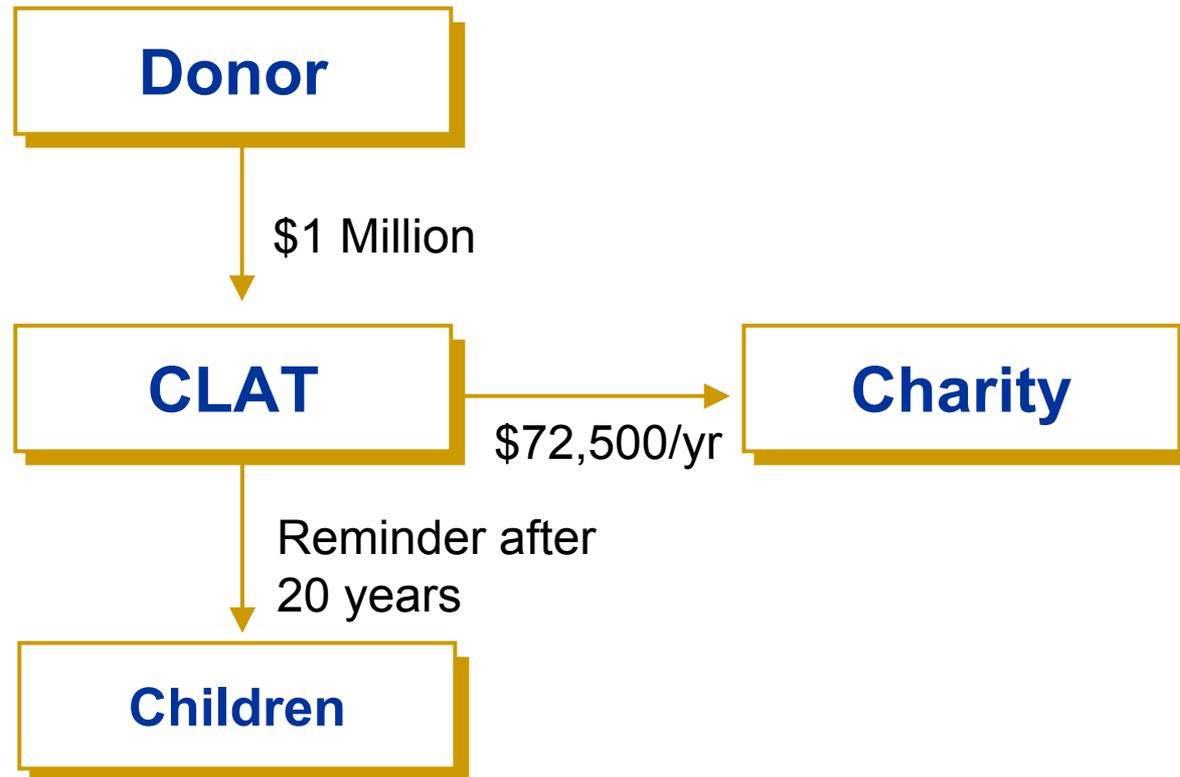


Hedge Against “Mortality Risk”



Gift Value = \$273,112
Payout Value = \$50,000/yr

Transfer Appreciation Without Gift Tax

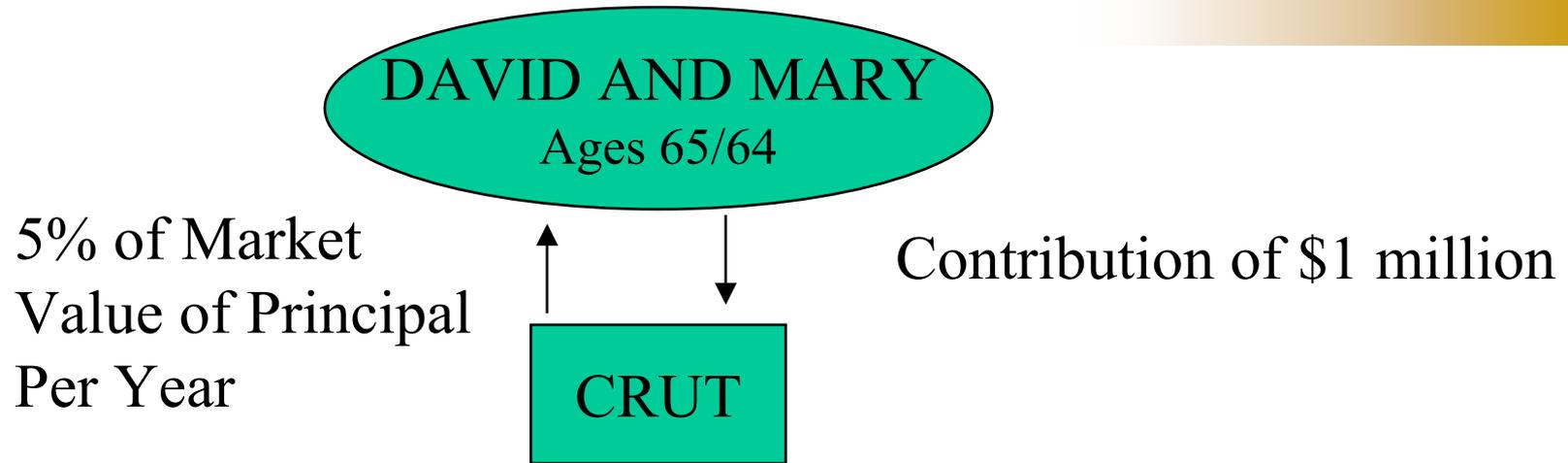


Charitable Remainder Trust

- Way to make appreciated assets more productive



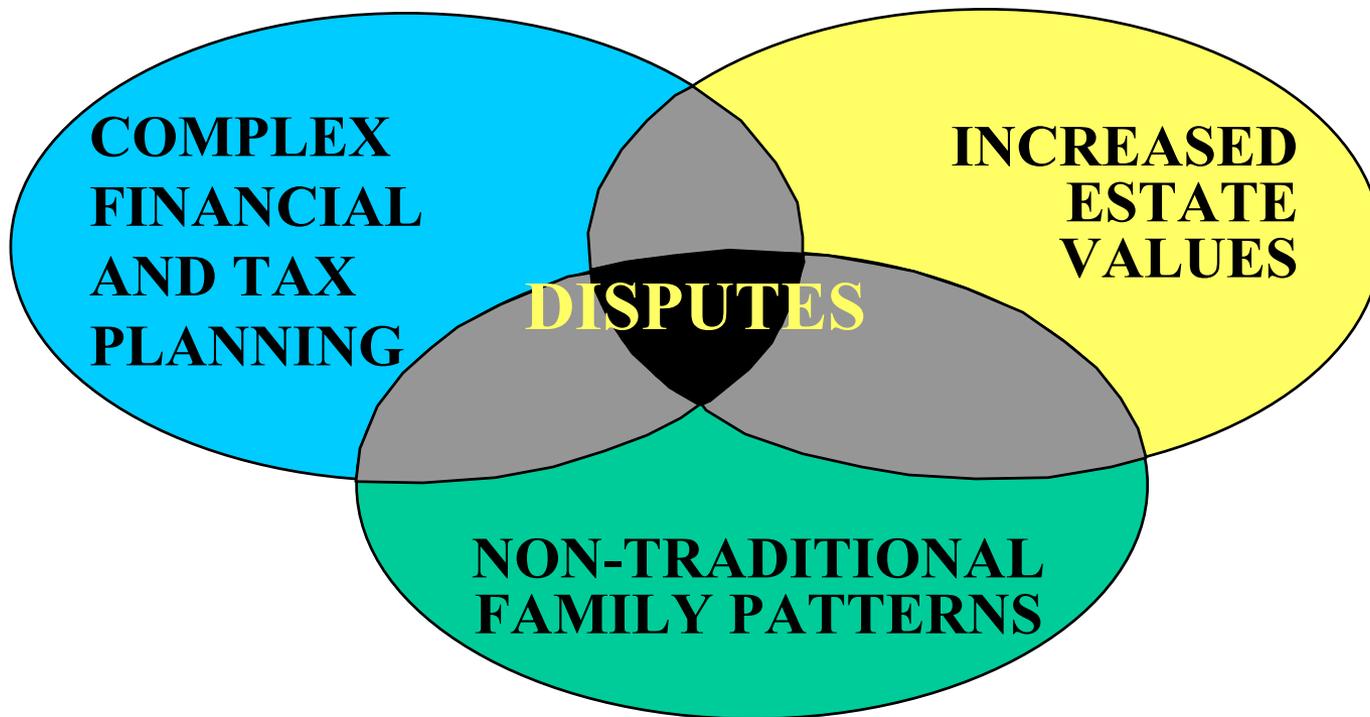
Charitable Remainder Unitrust



5% Unitrust Charitable Deduction =	\$343,910
10% Unitrust Charitable Deduction =	\$130,810



Wealth Transfer Disputes



Wealth Transfer Disputes

CONTINUED

- Wealth concentration and estate values have increased dramatically in the last 15 years. Estimates of U.S. wealth transfers in the first half of the 21st century run as high as \$150 trillion
- Multiple marriages, stepchildren and step-grandchildren, ex-spouses, unmarried couples, and other non-traditional family patterns are becoming the rule rather than the exception



Wealth Transfer Disputes

CONTINUED

- Complex financial instruments, intricate and often poorly designed tax planning arrangements and more professional fingers in the pie add to the witches' brew.

