GOLDEN BULLETS

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THOUGHT YOU'D LIKE TO SEE THIS:

GIFTS AND GIFT TAX LAW - WHAT YOU NEED TO KNOW

People make gifts for various tax and non-tax reasons. For instance, you can reduce probate and administrative costs. Assets you give away may gain protection from the claims of creditors. You can enjoy your recipients' use of the property (and/or its income). Your donees can learn how to handle money, property, business interests.

Lifetime gifts allow you to assess your recipients' ability to handle property, invest money, or manage business interests. A gift helps assure financial security for those who receive your gifts. Gifts to charity provide assurance that its mission will be met. A gift of income producing property shifts income to family members in lower income tax brackets. This saves income taxes.

FEDERAL TAX ON CERTAIN GIFTS: A gift is essentially any voluntary transfer made without consideration. The federal gift tax is imposed on any transaction in which property or an interest in property is gratuitously transferred, or when one person enlarges someone else’s interest in property, or confers an interest on someone else. The scope of the gift tax reaches gifts of real and personal, tangible and intangible property, as well as outright transfers (direct gifts), transfers in trust, and other indirect gifts.

Taxable Gift Defined: A person’s taxable gift is its fair market value determined on the date of the transfer reduced by certain exclusions and deductions.

Annual Exclusion: If you make a gift of cash or property, you can exclude the first $11,000 (in 2005 and indexed for inflation) from the value of the gift. These so-called annual exclusion gifts can be made to an unlimited number of persons each year.

Tuition or Medical Expense Exclusion: An additional exclusion, unlimited in amount, is available for gifts made for the direct payment of another person’s tuition or medical expenses. Amazingly, one person, regardless of relationship, can pay the private school or college or graduate school tuition of another and incur no gift tax. So parents, grandparents, or even friends can make direct payments for a relative, friend, or even total stranger's tuition or medical care expenses without triggering a gift tax.

Gift Splitting: Married couples can double their annual exclusions through what is called "gift-splitting." The law treats a consenting spouse as having made one-half of the gift that is actually made by his or her spouse. The result of gift-splitting is that a couple making gifts in 2005 can exclude as much as $22,000 (per donee) from current gift tax.

Marital Deduction: Certain spousal gifts qualify for the gift tax marital deduction. The purpose of the gift tax marital deduction is to treat a married couple as a single economic unit. The amount of the gift tax marital deduction is unlimited.

Charitable Deduction: There is no limit on the amount that can be passed, gift tax free, from a U.S. citizen or resident to a "qualified charity" (essentially the same governmental agency, certain religious, scientific, fraternal, and veterans' associations, organizations, or societies for which gifts receive an income tax deduction).

Gift Tax Credit: The gift tax credit results in a dollar-for-dollar reduction of any gift tax otherwise due. Currently, the gift tax credit is capped at $345,800 and remains level until 2009. That credit offsets the tax on up to $1,000,000 of lifetime taxable gifts.

BEING SMART ABOUT GIVING: Gifts – and gift taxes – are here to stay. Gift giving is an important estate planning tool but it must be integrated into a well-planned and carefully coordinated estate and wealth transfer planning effort. In deciding whether or not to make a gift and, if so, the right type of property to give, consider the following:

1. Give property likely to appreciate in value to remove both the property and the appreciation on that property from the donor's estate

1. Give property with a "leverage factor," i.e., property with a low cost to give and a high growth potential. For instance, the gift of life insurance has a relatively low cost but removes a substantial amount from the donor's estate

1. Give property that is – or will become – income producing. Give that property to lower income-bracket family members.

1. Match the gift to the needs and abilities of your recipient as well as your own objectives.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR ANY OTHER ISSUES OF IMPORTANCE TO YOUR FINANCIAL SECURITY AND ESTATE PLAN. RYAN (517) 377-0897