

## Taxes come and go, but death stays the same

By James E. Connell FAHP, CSA, Connell & Associates



Will Rogers famously said, "The only difference between death and taxes is that death doesn't get worse every time Congress meets." This could not be more correct in today's heated political environment.

When most people hear the word taxes, they think of income taxes, but there are, in fact, dozens of taxes we all pay over the course of a year and a lifetime.

The income tax began as a "temporary tax" in 1913 with a maximum rate of 7%. Fast forward to 1951, when the maximum rate rose to 91%. It stayed that high until 1964 when it dropped to 77%. To get to today's top rate (35%) the taxable income for a single individual or married couple would be \$388,350, and only the income over that amount is taxed at the highest rate.

Fast forward again to today's debate on taxes, where experts predict the U.S. will need \$1.5 trillion in tax increases over the next 10 years. Taxes will increase no matter what the outcome of the presidential election. The Bush-era tax cuts enacted in 2001 and 2003 will expire at the end of 2012. At the same time new taxes enacted in Obama's signature healthcare law, the largest social program in decades, will take effect in 2013. All families with income above \$250,000 will pay an additional 3.8% tax on investment income to help pay for the new law.

The result of these combined tax increases will be a tax rate on dividends rising from 15% to 43.4%, an increase of almost 300%. Capital gains will rise from a Federal rate of 15% to 20% plus the healthcare tax of 3.8%, making the top rate 23.8% --an increase of nearly 60%.

The President's proposed budget limits deductions and exclusions beginning in 2013. There is a proposed 28% limit on all itemized deductions claimed by families with taxable income over \$250,000 (\$200,000 for individuals).

One commentator cited the following example. Suppose a family with taxable income over \$250,000 earns an additional \$10,000 and gives this amount to charity. Under the Obama plan, the additional income would be taxed at about 40%, the charitable deduction would be limited to 28%, giving rise to a net tax of 12% on the \$10,000, even though the taxpayer retained none of the funds.

For the first time the President proposes extending the 28% limit to above-the-line deductions and exclusions including tax-exempt interest. For instance, a high-income family receiving \$1,000 of tax-exempt interest would pay \$120 or 12% on tax-exempt payments.

Estate taxes are also affected. The President proposes returning the estate tax rules to those in effect in 2009: a \$3.5 million lifetime exemption, reduced from the current \$5 million. The estate tax rate would increase from 35% to 45%, and a \$1 million gift exemption would be effective (down from \$5 million).

How should charities respond? The value of deductible items such as charitable gifts will rise in a higher-rate environment and therefore should be deferred until

*See TAXES on reverse side for continuation*

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## TAXES (Continued from reverse side)

2013. Charities will have to make a compelling case to motivate “tax motivated” donors in 2012. One possible solution would be to suggest donors make one-half of their gifts in 2012 and the other half in 2013 until there is a final solution on tax policy moving forward.

Gift annuities, America’s most popular life income program, become more popular not only for their higher payment rate compared to commercial investments, but for their enhanced after-tax return and tax-free payments. Charitable trusts have the ability to shelter capital gains from taxation upon sale and should become increasingly popular in a high tax rate environment.

A lower tax rate on estates may prompt individuals to plan differently and that always opens the door to introduce the value of charitable gifts from estate assets.

To quote Will Rogers on taxes again, “Everything is funny as long as it is happening to someone else.” Charities need to keep informed so they can work out successful strategies for their closest and most tax motivated donors.

LAL York thanks Mr. Connell for his contribution. He may be reached at [www.connellandassoc.com](http://www.connellandassoc.com) or [jec42644@aol.com](mailto:jec42644@aol.com).

## Planned Giving Mentor Program Now Available!

Nonprofit Partners are encouraged to participate. Visit <http://LALYork.wordpress.com> for details and to download a Mentor Request Form.

## Partners in Planned Giving Networking Lunch

**Tuesday, May 22, 2012**

12:00 – 1:30 p.m. at the United Way of York

### Part 2: Continuing the Conversation

Join Josette Myers and your colleagues for lunch and learning. Visit

<http://LALYork.wordpress.com> for more details.

## SAVE THE DATE:

**Wills Week is June 4 – 8, 2012**

Stay tuned for more details on our website,

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