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New Tax Law Sweetens Incentives to Give to Charities and Children

It's starting to look like 2011 could be a brighter fundraising year for charities, which are due for a much-needed boost after pushing through the dark years of the recession.

Recent changes to federal tax laws pertaining to gifts, coupled with ameliorating economic conditions, could translate into increases in charitable giving this year. And such an outcome is direly needed, considering that the nation's top 400 charities experienced an 11 percent annual decline in donations in 2009. Many of them predicted only a small increase in donations for 2010, according to the Chronicle of Philanthropy.

In December, President Barack Obama signed into law expansive tax reform legislation, which, among other things, increased the amount taxpayers can give over a lifetime without being subjected to the gift tax. The Tax Relief, Unemployment Insurance Authorization and Job Creation Act increased the lifetime gift tax exemption from $1 million for individuals and $2 million for couples in 2010 to $5 million for individuals and $10 million for couples in 2011 and 2012. For taxpayers whose gifts exceed this lifetime limit, the gift tax's top marginal rate was kept at 35 percent. Under the 2010 legislation, there was also a similar increase in the amount of the estate tax exemption. However, the lifetime gift tax and estate tax exemptions are currently scheduled to drop back down to $1 million in 2013 with a top marginal rate of 55 percent.

This federal tax reform law raises some important questions from an estate planning standpoint. Donors must ask whether they want to take advantage of the new lifetime gift tax exemption by giving more to their descendants, charities or both. A type of domino effect in giving could take place here. With the increase to the estate tax exemption, parents can now transfer up to $10 million in assets to their children at death without having to pay any estate taxes. As a result, a smaller portion of estates will get hit with estate tax, or they will get hit with a lesser estate tax. With less of their money going to the federal government for estate taxes, donors might be more willing to make larger contributions to charities during their life or at death.

If you are interested in providing gifts to a charity or a family member, you should contact an estate planning attorney who can help you do so in the most tax advantageous way.

To schedule a meeting with one of Tully Rinckey PLLC's estate planning attorneys call 1-888-LAW-4-LIFE.