

# THE AMERICAN FOUNDATION

## Creating Family Foundations

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### AMICUS

A FINANCIAL GUIDE FOR OUR FRIENDS

SPRING 2005

## Estate and Gift Taxes — Looking Down the Road

Over the next several years, the estate tax exemption is scheduled to increase, the rates to decrease slightly, and the law to be suspended for 2010 — with a return in 2011 with a much lower exemption and higher rates.

Remember, the gift tax is not repealed and the exemption is frozen at \$1 million (and that \$1 million is part of the estate tax exemption, not in addition to it). The annual exclusion remains at \$11,000.

For 2010, when the estate tax is suspended heirs will get a carry-over (instead of a stepped-up) basis. However, an aggregate basis increase of \$1.3 million can be allocated to a decedent's property with an additional basis increase of \$3 million for property passing to a spouse.

Recent attempts to repeal the estate tax immediately and make repeal permanent have been successful in the House, but couldn't get the 60 votes needed in the Senate. Now that the Republican majority has increased to 55 from 51, some pundits believe that enough Democratic support can be enlisted to repeal the estate tax. Others think that the estate tax will be returned, but with a higher exemption. Time will tell.



*"Well, we've licked taxes—  
that just leaves death."*

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- **Paying with Plastic — Credit or Debit?**
- **Inflation Adjustments for 2005**

### CURRENT ESTATE, GIFT AND GST LAW

Calendar Year	Estate Tax Exemption	GST Tax Exemption	Gift Tax Exemption*	Maximum Estate and Gift Tax Rates
2005	\$1,500,000	\$1,500,000	\$1,000,000	47%
2006	\$2,000,000	\$2,000,000	\$1,000,000	46%
2007	\$2,000,000	\$2,000,000	\$1,000,000	45%
2008	\$2,000,000	\$2,000,000	\$1,000,000	45%
2009	\$3,500,000	\$3,500,000	\$1,000,000	45%
2010	Estate Tax Suspended	GST Tax Suspended	\$1,000,000	Rate equals top income tax rate
2011 and beyond	\$1,000,000	\$1,120,000 adjusted for post-2003 inflation	\$1,000,000	55%

\*The \$1,000,000 is not in addition to the estate tax exemption.

## The Latest From IRS: A Flexible Deferred Payment Gift Annuity

**IRS** has recently approved a new charitable gift annuity plan that allows a donor, during a specified period in the future, to direct when his or her annuity payments are to begin.

This is a valuable option for an individual who doesn't need income now and wants annuity payments to start sometime in the future. If you'd like to have that flexibility, your annuity agreement could provide, for example, that during the period from 2010 to 2015 you can designate when payments are to begin. With a traditional deferred annuity, the starting date would have to be determined at the outset.

We'd be glad to give you all the details on the flexible deferred payment gift annuity or any of the several other types of life-income plans that our institution offers.

These plans enable our supporters to provide income for themselves (and others) and also make significant charitable gifts during lifetime. We'd like to tell you about them — without obligation, of course.

## Paying with Plastic — Credit or Debit?

**C**onsumers are increasingly paying with plastic and debit card purchases are growing at a faster rate than credit cards. But the cards are governed by different laws and there are distinct differences in the advantages and protections they offer.

Many people prefer the no-bill simplicity of the debit card and its speed and convenience at the grocery store and gas station, but which is better — and safer — for making larger purchases?

**Credit vs. debit** Although credit and debit cards are used in much the same way, a debit card purchase withdraws funds directly from your checking or savings account — sometimes immediately — while a credit card purchase is a promise to pay. This is an important difference.

**Billed for never-received or shoddy merchandise?** If you're dissatisfied with a purchase or an order doesn't arrive, paying by credit card gives you the protection of the Fair Credit Billing Act; debit cards fall under the Electronic Funds Transfer Act which gives you less protection. The FCBA allows you to withhold payment — without damaging your credit rating — on defective or poor quality merchandise until the dispute is settled.

Although some debit card issuers now voluntarily offer consumer protections, paying with a debit card could mean you're on your own. Your money is already in the merchant's hands and you don't have the leverage of withholding payment. You may end up waiting months for a store credit, at best, instead of a refund.

**Lost or stolen cards** Both Visa and MasterCard have extended some credit card protections to debit cards if the loss is reported promptly (most companies have 24-hour service). The customer is responsible for a maximum of \$50 per card if the issuer is notified within two days; \$500 if you wait up to 60 days. But you could lose all the money in your account if you don't act within 60 days after your statement is mailed. An unauthorized use of your debit card with your PIN — as opposed to your signature — is not protected at all.

**ATM alert** Be aware that many banks issue ATM cards that can also be used as debit cards. If you'd rather not have that exposure, ask for an ATM-only card.

**A good source of consumer information** The Federal Trade Commission offers valuable advice on settling disputes, protecting cards and resolving problems. Call toll-free 877-382-4357 or go to [www.ftc.gov](http://www.ftc.gov).

# Inflation Adjustments for 2005



**E**very year the federal government adjusts the tax tables, the personal exemption, the standard deduction and other provisions to take inflation into account. Some adjustments result from changes in the law. Here are key figures for 2005.

**Tax brackets** Adjustment of the progressive tax rate tables for inflation means that you can earn a little more before having additional income taxed in a higher bracket. Plus Congress has lowered some rates. Here are the taxable income ceilings for 2005:

- **Joint filers and surviving spouses:** up to \$14,600 of taxable income taxed at 10% rate; \$14,600 up to \$59,400 taxed at 15% rate; \$59,400 up to \$119,950 taxed at 25% rate; \$119,950 up to \$182,800 taxed at 28% rate; \$182,800 up to \$326,450 taxed at 33% rate.

- **Heads of households:** up to \$10,450/10%; \$10,450 to

\$39,800/15%; \$39,800 to \$102,800/25%; \$102,800 to \$166,450/28%; \$166,450 to \$326,450/33%.

- **Unmarried individuals (other than surviving spouses and heads of households):** up to \$7,300/10%; \$7,300 to \$29,700/15%; \$29,700 to \$71,950/25%; \$71,950 to \$150,150/28%; \$150,150 to \$326,450/33%.

- **In all above categories:** 35% for taxable income over \$326,450.

- **Marrieds filing separately:** up to \$7,300/10%; \$7,300 to \$29,700/15%; \$29,700 to \$59,975/25%; \$59,975 to \$91,400/28%; \$91,400 to \$163,225/33%; taxable income over \$163,225/35%.

**Personal exemptions** The exemption for the taxpayer, a spouse and dependents is now \$3,200 for each (up from \$3,100 in 2004). However, high-income taxpayers can lose this benefit. The personal exemption "phase out" begins after these thresholds: married, filing joint return and surviving spouses — \$218,950; heads of household — \$182,450; singles — \$145,950; marrieds filing separately — \$109,475.

**3% reduction rule for some itemizers** Taxpayers must reduce their itemized deductions (except medical expenses, casualty and theft losses and investment interest) by an

amount that equals 3% of adjusted gross income over \$145,950 (over \$72,975 if married, filing separately).

The charitable deduction generally isn't affected by this rule, because most itemizers pay home mortgage interest and state and local taxes. So, in effect, those non-discretionary payments bear the burden of any reduction. Donors with very high adjusted gross incomes, however, may be affected. In any event, the 3% rule won't take away more than 80% of the itemized deductions that are subject to that rule.

**The standard deduction** Joint filers and surviving spouses — \$10,000; heads of households — \$7,300; singles — \$5,000; marrieds filing separately — \$5,000. Additional amounts for the elderly and blind: \$1,000 for each category; \$1,250 if the taxpayer is single and not a surviving spouse.

**Estate taxes** The exemption is \$1.5 million in 2005. It is scheduled to increase to \$2 million in 2006 and to \$3.5 million in 2009. Then the estate tax is repealed in 2010, but returns in 2011 with a \$1 million exemption. Lots can happen between now and then. This reports what the law now provides. The top estate tax rate for 2005 is 47% (down from 48% in 2004). The top rate is slated to go down 1% next year and then level off at 45%. If the estate tax

(cont'd on page four)

## Inflation Adjustments for 2005 (cont'd)

returns in 2011, the top rate is slated to be 55%.

The generation-skipping tax exemption for 2005 is \$1.5 million, and will continue to equal the estate tax exemption in future years. The GST rates are the same as the estate tax rates.

**Gift taxes** The exemption is \$1 million in 2005. This is not a separate gift tax exemption but is the unified gift and estate tax exemption.

**The gift tax exemption will remain at \$1 million and won't increase along with the estate tax exemption.** The gift tax rates are the same as the estate tax rates. The gift tax doesn't expire,

not even for one year. Beginning in 2010, the maximum gift tax rate will be the top individual income tax rate for the year.

For gifts of present interests, the annual gift tax exclusion for 2005 is \$11,000 per donee (the same as in 2004). With "gift-splitting," spouses can transfer a total of \$22,000 per donee each year without gift tax or dipping into the \$1 million exemption. Present interest gifts to non-citizen spouses qualify for an annual exclusion of \$117,000 in 2005 (up from \$114,000).

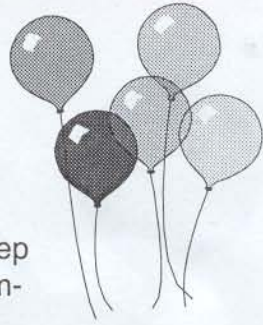
**Optional standard mileage rates for volunteers** The mileage rate for use of an automobile for charity remains at 14¢ per

mile. You may also deduct parking fees and tolls — but keep accurate odometer readings.

The standard charitable mileage rate is not indexed for inflation. Instead of using the standard rate, volunteers can deduct their actual gasoline and oil expenses plus tolls and parking.

**Health insurance costs** Self-employed taxpayers who had a net profit for the year can deduct 100% of eligible costs in 2005.

**Social Security** The maximum earnings subject to social security tax in 2005: \$90,000.



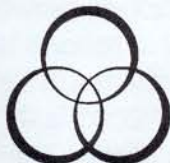
### *A* bout us

The American Foundation is a 501(c)(3) public charity that helps individuals, families and corporations create family foundations and corporate foundations that give financial support to their favorite charities.

### *C* reating Your Own Family Foundation

In the past, people established gift plans that gave money directly to a charity at the time of their death. A better way is to create a family foundation while living to get close to a double or triple tax deduction, while at the same time establishing a legacy of perpetual family giving.

Not only can you fund your family foundation with cash and securities, but it can also be designated as the beneficiary of every kind of planned gift or charitable trust permissible under tax law. And most important, family foundations with The American Foundation receive the higher, public charity tax deductions.



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