Wisconsin Legacy Society
UNIVERSITY OF WISCONSIN FOUNDATION

Legacy

2013 year-end charitable tips for Wisconsin Legacy Society members

Fall/Winter 2013

Dear Friends,

I'm pleased to bring you the latest issue of *Legacy*, our special newsletter for Wisconsin Legacy Society Members.

The American Taxpayer Relief Act of 2012 has provided many new planning opportunities in 2013. Likewise, the continuing record-low interest rate environment makes this an especially good time for you to employ certain creative charitable strategies.

I also want to take this opportunity to extend our sincere thanks for your meaningful commitment and the great personal impact and legacy you are creating at the university. Please know that we are here to help in any way we can as you tackle your own year-end planning. We would be delighted to meet with you and your advisors to discuss in-depth how charitable planning can benefit you. Please contact our office if we can help in any way.

Sincerely,

Scott T. McKinney, Vice President

Year-end tax planning for 2013

In December of 2012 Congress passed legislation known as the American Taxpayer Relief Act of 2012 (ATRA). The legislation added a number of bells and whistles to the tax system in addition to creating one new, higher income tax bracket. Several of these tweaks were elements of tax-law past brought back for a 2013 encore.

New tax bracket affects some donations

Much of the controversy prior to the enactment of the new law centered on whether the highest-income taxpayers should pay more taxes. The new law increased the top rate from 35 percent to 39.6 percent for singles with taxable income of more than $400,000 and married couples filing jointly with taxable income of more than $450,000. These high-income individuals will realize larger tax savings from charitable gifts, while savings for all other donors will remain essentially the same.

2013 Tax Brackets			
Rate	**Single**	**Married Filing Jointly**	**Head of Household**
10%	0-$8,925	0-$17,850	0-$12,750
15%	$8,926-$36,250	$17,851-$72,500	$12,751-$48,600
25%	$36,251-$87,850	$72,501-$146,400	$48,601-$125,450
28%	$87,851-$183,250	$146,401-$223,050	$125,451-$203,150
33%	$183,251-$398,350	$223,051-$398,350	$203,151-$398,350
35%	$398,351-$400,000	$398,351-$450,000	$398,351-$425,000
39.6%	>$400,000	>$450,000	>$425,000

Assuming you itemize deductions, your tax savings can be estimated by multiplying the amount of your gift by the applicable tax bracket in the chart below.

Phaseout of itemized deductions. ATRA also reintroduced the gradual phaseout of certain itemized deductions for higher-income taxpayers. Itemized deductions will be reduced by 3 percent of the amount a taxpayer's income exceeds a certain threshold—$250,000 for singles, $300,000 for married couples and $275,000 for heads of households. However, the reduction of itemized deductions cannot exceed 80 percent of their value.

Capital gains tax rates now higher

ATRA also modified the way long-term capital gain is taxed. In 2012 those in the 10 percent or 15 percent tax bracket paid no tax on such gain, while all others paid 15 percent. Those in the two lowest brackets still pay no capital gains tax, and the rate continues to be 15 percent for everyone else except those in the new 39.6 percent regular income tax bracket, who will now pay 20 percent on capital gains income.

These changes are in addition to another new provision that is not part of ATRA that affects the way capital gains income is taxed. Starting this year the Affordable Care Act levies a 3.8

percent tax on certain investment income. This surtax applies to single taxpayers with adjusted gross income of more than $200,000 and couples with AGI of more than $250,000—a much broader swath than those with taxable income over $400,000 or $450,000 respectively. This means that taxpayers in regular income tax brackets as low as 28 percent could be subject to this tax. For taxpayers in the 39.6 percent bracket, the total capital gains rate, including surtax, would be 23.8 percent.

Receive extra benefits with gifts of appreciated property

Tax-savvy donors know that appreciated assets such as stock or real estate are ideal for charitable gifts. This is because a donor can deduct the full Fair Market Value of the assets and not be taxed on any of the gain. The exact extent of the potential capital gains tax savings depends on the donor's personal income circumstances.

Even if you do not itemize deductions on your federal income tax, you still avoid potential capital gains tax when you give appreciated property instead of selling the stock and making a gift of the cash proceeds.

Charitable pointer: What if you are inclined to give cash because you want to continue to own a stock that has increased in value? Instead of using the cash to make your gift, give the stock and use the cash to buy the same number of shares. This locks in your capital gains tax savings because any future gain will be based on the cost of the new shares rather than on the cost of the shares you used to make your gift.

Estate tax now made permanent

Before ATRA one of the biggest questions was what would happen to the federal estate tax. It had been on a roller coaster ride since the turn of the millennium, but the general trend was to increase the exemption and decrease the estate tax rate.

The final outcome of ATRA was to increase the estate tax rate from 35 percent to 40 percent, retaining the high exemption, indexed for inflation. The exemption for 2013 is $5.25 million. The new law keeps the gift tax and estate tax unified as one system and also allows a surviving spouse to use any part of the exemption not used by the estate of the first spouse to die. Taken together, all of these provisions let taxpayers approach their estate planning with more assurance.

Greater tax savings from some estate gifts. Most people make bequests to the University of Wisconsin-Madison because they believe in our mission and are able to support it after providing for family. High-net-worth donors, however, realize the added benefit of estate tax savings, and those savings will now be 40 percent of the gift.

Charitable pointer: Whether or not your estate is large enough to be subject to estate tax, it is generally a good idea to use assets from an IRA or other retirement fund to fund your end-of-life estate gift to the University of Wisconsin-Madison. If heirs are beneficiaries of those assets, all distributions to them (unless from a Roth IRA) will be subject to income tax, but the assets will escape income tax if gifted to us.

It is better to make your gifts to heirs with cash and appreciated property. They will not pay income tax on the gain in those assets that accrued prior to your death.

More key provisions of ATRA

- **Alternative minimum tax.** ATRA has created a permanent patch to avoid unintended consequences of having the AMT apply to unintended target groups. It sets the exemption for 2013 at $50,600 for singles and $78,750 for married couples, indexed for inflation in the future.
- **Personal exemption phaseout.** ATRA reintroduced the phaseout of the personal exemption for taxpayers with income above a certain threshold. Those thresholds are $250,000 for singles, $275,000 for heads of household and $300,000 for married couples. The phaseout is 2 percent of any personal exemptions claimed for every $2,500 or a fraction thereof for income exceeding the applicable threshold.
- **Generation-skipping tax exemption.** This exemption will be continued at an amount equal to the gift and estate tax exemption, which is $5.25 million in 2013 (indexed for inflation).
- **Qualified conservation contributions.** The law continues special benefits of qualified conservation contributions that provide for increased contribution limits and extended excess-deduction carryforward provisions.
- **Gifts by subchapter S corporations.** The new law extends the special benefits for contributions of appreciated assets by S corporations.
- **Corporate gifts of food inventory.** The new law also continues the enhanced deduction for gifts of inventory to benefit the needy.

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4 reasons why estate plans are not just for the wealthy

You may have been considering how you would eventually like your assets distributed among loved ones and charitable organizations—but have not developed a comprehensive estate plan because you think that is necessary only for the extremely wealthy. In actuality, the need for estate planning applies to everyone. A smaller estate requires even more care to avoid unnecessary expenses and retain the maximum amounts for fulfilling your personal, financial and philanthropic goals. Here are four key reasons why you should establish an estate plan:

1. Defining care for yourself

A health care proxy, power of attorney and living will define how you wish to be cared for should you ever experience a period of incapacity.

2. Creating financial security

A will allows you to dictate how you want your money distributed and to whom, regardless of the amount. If you don't have a will, state laws will determine who receives your assets.

3. Naming guardians

If you have children or beloved pets, it's important to make written arrangements for their care. A will is the only legally recognized way to name a person you would like to entrust with the care of your children or pets.

4. Naming beneficiaries

Your estate plan includes filling out beneficiary forms for assets such as insurance policies and retirement accounts. You should review your designated beneficiaries after major life events. You can also name a charitable organization as a primary beneficiary, cobeneficiary or contingent beneficiary.

A well-crafted estate plan benefits you, your loved ones and the causes you care about. Everyone needs to take the four steps described above. Because no two situations are alike, the best course of action is to have your financial advisor and attorney review the specifics with you and help craft your estate plan. By making these important decisions and putting them in writing, you can relax with the peace of mind of having fulfilled both family and charitable goals.

THE IRA CHARITABLE ROLLOVER

The IRA charitable rollover is back, but only for a limited time! Until December 31, 2013, direct gifts to the University of Wisconsin-Madison from your IRA can:

1. Provide an easy and convenient way to make a gift from one of your major assets.
2. Reduce your gross income: **a tax-free rollover**.
3. Count toward your required minimum distribution.

This extension expires on December 31! Contact us today!

For additional information contact:

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