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Is this holiday season the right time to give?

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The philanthropically minded already know that November is Giving Month, but this year there are even more compelling reasons to consider financial gifts to charity or loved ones. Unless Congress acts to prevent a pending rule change, the potential tax benefits of certain gifts could be substantially lessened next year.

A gift trust can be structured to provide for younger beneficiaries' health, education, maintenance and support.

What You Should Know:

1. The gift tax exemption is set to drop dramatically in 2013.

Under current law, if individuals haven't already taken advantage of tax-free gifting, they can make gifts up to the lifetime limit of $5,120,000 in a single year, and married couples can gift twice that amount. But that threshold will fall to just $1 million at year end. For background:

- The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 temporarily increased the exclusion to its highest level ever and made it applicable both to gifts made during one's lifetime and to gifts made as part of estate transfers.
- The 2010 Act also lowered the tax rate on transfers above the exclusion amount to a flat 35%.
- In addition to the reduced exclusion, the top tax rate on gifts and estates greater than $1 million is set to increase to 55% in 2013.

2. There are several strategies for gifting.

If you have reached your lifetime limit for tax-free gifting and are planning on giving an amount that exceeds the $13,000 annual limit, there are more-tax-efficient strategies for transferring wealth to your children or other beneficiaries, including:

- The gift tax value of an interest in a closely held business may be reduced by combined discounts as great as 35–45% for lack of control and lack of marketability. ▸

- Gifts to younger beneficiaries can be placed in a gift trust, which can be structured to provide for their health, education, maintenance and support.
- A charitable remainder trust can provide income to a non-charitable beneficiary for a specified number of years and then gift the remaining trust assets to one or more qualified organizations. The donor receives a current tax deduction based on the actuarial value of that remainder gift.

3. Giving directly to charity can also reduce your tax liability.

If you itemize deductions on your tax form, cash contributions to qualified charities are deductible. Some things to keep in mind:

- You must maintain a record of the contribution in the form of a bank statement or written communication from the organization that includes the name of the charity and the date and amount of the contribution.
- In addition to deducting your cash contributions, you generally can deduct the fair market value of any other property you donate to qualified organizations.
- By donating highly appreciated stocks to charity you can avoid paying tax on those gains in addition to deducting the present value of the stock.

What you should do now:

Giving to loved ones or worthy causes is a noble gesture, and often its own reward. But we recommend you talk about your charitable or other gift intentions with both your Baird Financial Advisor and tax professional to ensure that you receive the tax benefits you deserve for your generosity. ■

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