



F O R U M

For Financial Planning

An Informational and Educational Publication of Ashland University, Ashland Theological Seminary and The Ashbrook Center Summer 2001

The Founders Tower, which was the original cupola on Founders Hall, has been adopted as the logo for the Forum for Financial Planning newsletter. The Tower, which served as a proud symbol of Ashland University from its beginning, now also serves as a symbol for the Founders Society.

The only way to really have is to give.

— Michael Colyar

Editorial

Report of the Demise of the Death Tax is Greatly Exaggerated – It is Alive and Quite Well, Thank you! But

This is the essence of the statement of House Ways and Means Democratic staff member Dan Maffei in a USA TODAY news article. Senate rules require that tax cuts expire after 10 fiscal years, so in October 2011, the estate tax would be back. It might be assumed that Congress will renew the tax cut, but in the case of the estate tax, Maffei doubts it. Tacked on to the \$139.1 billion cost during the first 10 years is an additional \$54+ billion cost during each of the years following. Not only does this staff member but many others on Capitol Hill express fear the cost might come at a time when the growing number of seniors would place a huge draw on Social Security and Medicare. The projections do not take into consideration either the state of the economy (and resulting tax revenues) or the much debated additional tax revenue a tax cut actually generates (or how long it takes to realize that stimulus to the economy).

But perhaps the truly telling tale of the failure of the death tax to really “die” is that it has actually morphed into another death tax, a so-called “capital gains estate death tax.” Under the old law, most appreciated assets (at least those that had previously been taxed at least once) were allowed at death to be “stepped-up” for the beneficiary from their cost basis to their actual market value and the estate paid the “death taxes due.” The only taxes the beneficiary paid were those on “income in respect of a decedent,” or those assets that hadn’t been previously taxed for income (e.g.: retirement funds, savings bonds, contract for deed, etc.). This allowed for the disposal or reinvestment of most assets to take place without either income or capital gains taxes being due. Under the new law, after a deduction of up to \$3 million (under certain circumstances) for spouses and \$1.3 million total to other beneficiaries, capital gains taxes are levied, notably at a lesser rate than most current estate taxes, but none the less due. Asset basis and distribution of estate assets will become extremely difficult to determine and prone to legal tussles among beneficiaries if meticulous records aren’t kept and definitive distribution instructions registered in each will or trust.

But the result is not all bad! Although it is going to take far more education, care and effort in the estate planning process, the amount that families get to keep should ultimately be increased! In the interim, however, especially in New York, estate taxes will increase for several years during the phase in process of the 2001 tax law due to certain quirks of the new law as it intersects with state law. And, many states are carefully reconsidering the cost of the new tax law to them, so the “cut” may not be nearly so great as it would appear looking simply at the federal rate reductions. To assist in understanding how the new law may affect your estate, you may wish to send for more information by returning the appropriately checked reply card attached to the magazine.



Two

How Will the Tax Reform 2001 Affect You?

On Saturday May 26, 2001, after months of talk about major tax relief, “The Economic Growth and Tax Relief Reconciliation Act of 2001” was passed and sent to the President.

Even though there are several changes to current tax law, in the end it might seem that nothing is really all that different. Many of the changes, both large and small, won't affect most of us for a number of years. How much of a difference these changes will make for you will largely depend upon your individual circumstances in the years to come.

Most remarkable, the entire package of changes will “sunset” and we will return to current law in 2011 unless there is further legislation extending these provisions.

The changes to the income tax and estate tax will have the most direct impact on charitable giving. Following is a brief summary of the major provisions that affect these areas:

INCOME TAX RATE PROVISIONS

New 10 percent rate bracket: A new 10 percent regular income tax bracket is effective January 1, 2001, for the first \$6,000 of taxable income for single individuals, \$10,000 of taxable income for heads of households, and \$12,000 for married couples filing joint returns. Beginning in 2008, the 10 percent rate will apply to the first \$7,000 for individuals and \$14,000 for married couples filing jointly or heads of households.

Tax refund in summer of 2001: You will receive a cash refund this year for 5 percent of the amount of your income that is eligible for the new 10 percent rate. The refund is up to \$300 for single individuals, \$500 for heads of households, and \$600 for married couples filing jointly. Checks will automatically be sent to taxpayers who filed 2000 tax returns.

Future reductions in individual income tax rates: The existing income tax rates are reduced, beginning on July 1, 2001, by 1 percent with further reductions of 1 percent each in 2004 and 2006 when the top rate becomes 35 percent.

The income tax rate reductions are summarized in the following table:

Beginning:	28% rate	31% rate	36% rate	39.6% rate
	reduced to:	reduced to:	reduced to:	reduced to:
July 1, 2001	27%	30%	35%	38.6%
January 1, 2004	26%	29%	34%	37.6%
January 1, 2006	25%	28%	33%	35%

Future phase-out of limitations on itemized deductions and personal exemptions: Most high-income taxpayers are subject to a gradual reduction in the value of their itemized deductions and personal exemptions as their income increases. These limitations are reduced by one-third in 2006, and by two-thirds in 2008. The limitations are eliminated beginning in 2010.

ESTATE TAX PROVISIONS

Initial estate tax rate reductions: The top estate tax rate is reduced to 50 percent and the 5 percent surtax on large estates is eliminated effective after December 31, 2001.

Future increase in Unified Credit amount: Beginning in 2002, the Unified Credit equivalent (the amount that you can pass tax-free) is increased to \$1 million. In 2004 it is increased to \$1.5 million, and in 2006 to \$2.0 million. For gift taxes, however, the Unified Credit equivalent remains at \$1 million after 2002.

Future estate tax rate reductions: Beginning in 2003, the top tax rate is reduced to 49 percent and then further reduced 1 percent each year until 2007 when it reaches 45 percent.

Continues next page

The real measure of a man's wealth is when he has invested in eternity.



Three

The choice you make today will usually affect tomorrow.

TAX REFORM, Continued from previous page

Future repeal of the estate tax: In 2010 the estate tax is repealed.

The estate tax reductions are summarized in the following table:

Year	Amount that can be passed tax-free	Maximum estate tax rate
2002	\$1.0 million	50%
2003	\$1.0 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2.0 million	46%
2007-08	\$2.0 million	45%
2009	\$3.5 million	45%
2010	Repealed	

Carryover basis for inherited property: Beginning with repeal of the estate tax in 2010, inherited property will have “carryover basis,” which means that when you sell inherited property you will pay capital gains taxes on all appreciation from the original date of acquisition (rather than from the date of inheritance as is currently the case).

Gift tax retained: The gift tax is retained after repeal of the estate tax, but the top gift tax rate will be tied to the top individual income tax rate, which will be 35 percent.

There are many other items included in this legislation including provisions regarding deductions for higher education expenses, the “marriage penalty” tax, Child Tax Credit, and contributions to IRAs and other qualified retirement plans. Access a summary of these provisions prepared by the Joint Committee on Taxation at <http://www.house.gov/jct/x-50-01.pdf>.

Putting Together Your Estate Plan Financial Advisory Team – Part V (final in series)

(Final in a series of five articles regarding how you can assemble your financial/estate planning advisory team. If you missed some or all of the previous articles, they may be obtained from the AU Estate Programs website at www.ashland.edu/estate/pgiv.html, in past FORUMS or by request on the return card.)

Ashland University believes charitable gifts from your estate (or any major current gift made from your estate), should be carefully planned and counsel sought from one’s advisory team. Ashland also believes that charitable planning professionals, and in our case Legacy Estate Programs staff, add a great deal to the conversation. Often, advisers (accountant, attorney, investment and insurance advisers and financial planner) are not aware of the many sometimes sophisticated types of charitable planning techniques available. Or, advisers may be hesitant to bring up the subject of philanthropy for fear of offending a client because they do not know of their charitable interests. The charitable planning representative can play a significant role in helping you and your advising team select the very best method of meeting your overall personal, family and philanthropic goals and objectives.

An estate or major current gift to charity, and in our case, Ashland University, often because of size, type of asset, the need for continued income, tax consequences or coordination of multiple charitable beneficiaries, requires a good bit of planning. Questions and concerns may be readily answered by the charitable team member and at significant cost savings. To

Continues back page



Four

FINANCIAL ADVISORY TEAM

Continued from previous page

help with the planning process, Ashland University, as do many charitable organizations, has an office and staff to assist you. Directing Legacy Estate Programs is Paul Ditlevson, who is willing to assist you. What should you expect from Mr. Ditlevson, or any comparable staff member at charitable institutions?

1. Confidentiality: making a gift out of your estate assets may touch sensitive concerns regarding personal wealth and family expectations. Sharing your goals and desires can arouse anxious feelings. Mr. Ditlevson will, and all charitable advisers should, be sensitive to your concerns and will respect your privacy;
2. Information – only the very best possible: by drawing on Mr. Ditlevson's wealth of information about estate and gift planning techniques and the many opportunities available at Ashland your advising team can benefit from the very latest information available. Any charitable planner you add to your team should possess extensive gift planning experience. They should be able to provide tailor-made illustrations for your team, showing the workings and benefits of particular planned gifts and how they may relate to your overall estate plans.
3. Accessibility: Paul will meet with both you and your advisers, on your turf. Sometimes a combination gift/estate plan can be confusing and difficult to explain. Mr. Ditlevson is able to discuss your plan in detail with both you and your advisers so all have a good grasp of what you wish to accomplish. This saves both time and expense. You are important and deserve personal service!
4. Coordination: any charitable team member should assist in the coordination of your plan and be good at fitting all the puzzle pieces together. Mr. Ditlevson helps orchestrate the entire process and will encourage the various parties to meet planning deadlines. It is his and all good planners' responsibility to see that the gifting and even the estate planning process is coordinated, enjoyable and as hassle free as possible. Making a good plan, as well as making a good gift, can take time but it should not be burdensome.
5. Accountability: Once your gift and/or plan is in place, there is need for an ongoing relationship to ensure that you are informed of what your gift accomplishes and how best you can be served. Ashland University expects that our relationship may continue even to succeeding generations and we want to be sure to keep close touch.

While Mr. Ditlevson, we believe, may be one of your very best resources, we think all charitable advising team members should provide you with only excellent assistance. And there are some things that he will not, and others should not, do — twisting arms or pressuring you for a gift. Paul will also not hide important information from you nor attempt to be your legal or financial counselor. In fact, as stated previously, Ashland University requires that you use your own professional advisers before making any major gift commitment.

We trust that the Advisory Team series has been helpful to you in thinking about how you might best plan for you and your family's legacy. Information has been gleaned from professional organizations as to their suggestions on how to choose good advisers from their separate professional ranks. Care has been taken to not prejudice, for or against, any profession in putting together your own team. If any bias is noted, it should be that the "team" approach is suggested and that no one individual or organization has the best answers for you. Paul Ditlevson, a member of the Education Subcommittee of the 12,000 member National Committee on Planned Giving, believes strongly in the power of education, coordination of efforts and the necessity of combining the very best planning tools for those with philanthropic interests.

You are richer today if you have laughed, given or forgiven.

The information in this publication is not intended as legal or tax advice. For legal advice, please contact an attorney. For information about taxes, please consult an accountant. You may also call the Legacy Estate Programs Office at 419-289-5090 or e-mail: pditlevs@ashland.edu.