

What The Presidential Election Might Mean For Your Taxes

It is time once again for the presidential election. Barack Obama and John McCain emerged from very contentious party primaries and now have a chance to show the country what each one envisions for the future of America.

Obviously, a major consideration in the country's future is taxes. Taxes drive many parts of the economy and affect us all. Without taking sides, The Caring Hand would like to report on some of the current policy statements each candidate has made regarding taxes.

INCOME TAX RATES

The Bush administration in 2001 pushed through a tax reduction bill that, by its terms, is scheduled to end in 2011, unless Congress further acts.

With respect to income taxes, the reduction occurred in three major ways. First, the top income tax

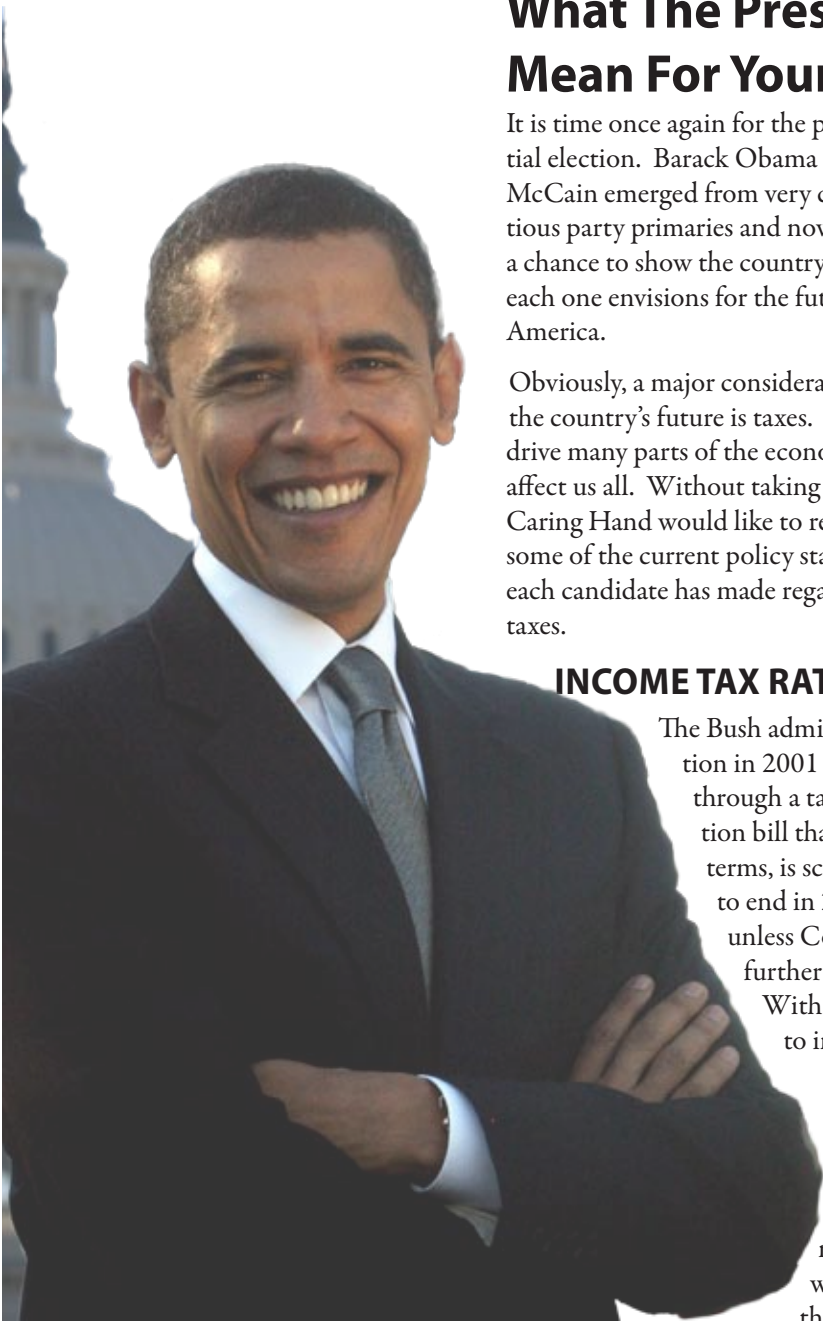
bracket was reduced from 39.6% to 35%. McCain has said he would like to make permanent the rate reduction.

Obama believes we need to return the top bracket to 39.6%. McCain also has proposed lowering the corporate tax rate (currently at a flat rate of 35%) to 25% in a bid to stimulate the economy. Second, the 2001 changes to the tax code created the concept of qualified dividends, which essentially are dividends paid out by U.S. companies or qualifying foreign companies. For these dividends, the top tax rate is 15%. For many wealthy investors and retirees who rely on dividend income, this has the effect of reducing their income tax by almost half. McCain wants to keep this reduction permanent, and Obama does not.

Finally, the long-term capital gains tax has declined over the years. It was at 28% at the start of the Clinton administration, during which time it was reduced to 20%. The 2001 law further reduced it to 15%, subject to the sunset clause in 2011. McCain wants to keep the long-term capital gains tax rate at 15%. Obama has said he would consider raising the capital gains tax rate, although he is not interested in raising it above 28%. McCain's overall belief is that tax reductions stimulate the economy which raises government revenue, while Obama has stated that tax reductions are irresponsible without corresponding cuts in the federal budget.

ESTATE AND GIFT TAX

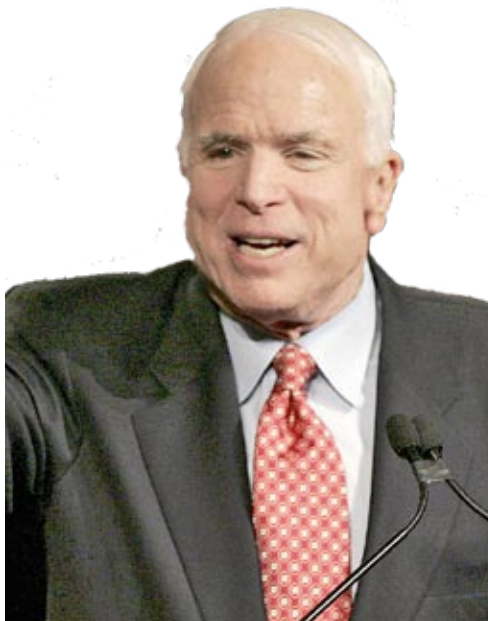
The 2001 law lowered the top estate tax rate to its current 45% and also



increased the exemption to \$2 million per person (\$3.5 million in 2009). In 2010, there is no estate tax, but in 2011 the sunset clause kicks in, resulting in a \$1 million exemption and a top rate of 55%. Bush wanted total repeal of what he called the “death” tax but was unsuccessful. McCain, who has in the past rejected abolishing the estate tax, now wants to see some permanent reform to the estate tax. McCain has entertained the idea of a \$10 million exemption and a 15% rate; but, a recent proposal to increase the exemption to \$5 million and reduce the rate to 35% failed to pass in Congress. Obama has stated that something needs to be done with the estate tax, but he has not made any specific proposals. Many practitioners in the estate tax area also believe that with permanent action on the estate tax will also come a reconnection of the estate and gift tax exemption rates (the gift tax exemption is still at \$1 million, even as the estate tax exemption increases).

ALTERNATIVE MINIMUM TAX (AMT)

Politics loom large over the alternative minimum tax (AMT). The AMT creates a parallel tax system that, while



at lower rates than the regular income tax system, disregards many of the deductions that taxpayers can take on their regular income taxes. A taxpayer then pays the greater of tax calculated under each system. Because the AMT exemption has not grown for inflation, it has started to affect the middle class (which is always when a tax becomes a hot button issue). McCain wants to repeal the AMT altogether. Obama has not some reform is probably warranted, but he has wondered aloud how the government will make up for the lost revenue.

When it comes to taxes, the two candidates are quite distinct from each other. Of course the wild card in all this is Congress, which would have to begin any legislation to either raise taxes or maintain current cuts. Whatever the outcome, this election will have a dramatic effect on the federal tax system for years to come.

CHARITABLE GIFT ANNUITIES

The American Council on Gift Annuities (ACGA) just published an updated schedule of suggested charitable gift annuity rates. For example, ACGA suggests a 5.1% single life annuity for a 50-year old annuitant and 5.5% for a 60-year old annuitant. The ACGA rates are simply guidelines, but most charities that offer gift annuities stay at or close to the suggested rates.

A charitable gift annuity is a contract between a person (the annuitant) and a charity. The annuitant gives the charity a certain sum of money or other assets, and the charity pays the annuitant a fixed percentage amount, based on the size of the initial transfer, each

year for life. The charity takes these assets and invests them with the charity's other investments, with the goal of obtaining a return sufficient to pay the annuity (and hopefully have extra for the charity itself). At the annuitant's death, the annuity ends, and the charity keeps all remaining funds. The difference in value between the assets transferred to the charity and the actuarial value of the annuity is a charitable gift for which a charitable income tax deduction can be taken.

Charitable gift annuities are a great way to give to charity, get a charitable deduction and still benefit economically from those assets. Since a charitable

gift annuity is a general obligation of the charity, the market risk of investing the assets passes to the charity (the annuity is not dependent on the rate of return of the assets as invested by the charity). This also means, however, that the annuity is subject to the credit worthiness of the charity. If a charity should go into bankruptcy, the annuitant would have a claim against the charity's bankruptcy estate, but he or she would have to greater claim than other creditors. For this reason, a person considering a charitable gift annuity should consider the possible long-term financial strength of the charity.

CONSIDER PERSONAL PROPERTY LISTS TO AVOID ARGUMENTS

Even though the personal effects of a decedent are usually among the least valuable of the person's property in monetary terms, often such items are the cause of argument among the decedent's beneficiaries. No price tag can be put on the emotional value of family heirlooms, jewelry, antiques or even such things as family photos and letters that have no monetary value. How can a person avoid such possible squabbling among children or grandchildren at death?

Many estate plan documents contain standard language that allows a person to make a separate list and identify which items go to what beneficiaries. The list need not do anything more than specifically identify an item and put the name of the person who is to receive that item at death next to it. Such a personal property list need not be formally witnessed or notarized, but it should be either done in the handwriting of the person, or, even better, the person should sign the list. The list should then be kept with the person's will or trust, and, if the estate planning attorney also have a copy of the will or

trust, give the attorney a copy of the list as well.

If, conversely, the will or trust contains no language providing for a personal property list, and if a possible dispute among loved ones is a concern, consider amending the documents to allow for one. A person can also make specific property gifts in the will or trust;

but, unless the items being given have substantial monetary value, making such gifts in the text of a will or trust usually can be cumbersome and will require the assistance of an attorney to update. Two other ways to avoid conflicts are to give certain items before death and to have a family meeting to discuss the division of certain items at death. The first method, however, would require the person to give up something while living. The second method may work, but if the family gets along well enough to have such a meeting, perhaps a list is not needed in the first place, and if the family does not get along, such a meeting could be a disaster.

Estate planning attorneys focus on the monetary value of the estate, including things like real estate, investment accounts and insurance; however, it is the little things that can cause big problems. Therefore, if you want certain people to get certain personal items at your death, consider preparing a personal property list to supplement your estate plan.



“BIG QUESTIONS”

ADULT EDUCATION IN THE FALL FOCUSES ON “BIG QUESTIONS”

The theme for this year's Adult Education program will be “Big Questions.” As there are few questions bigger than end life issues, which incorporate retirement, long-term care, and estate planning, Adult Education will be working with the Planned Giving Committee on one or more presentations dealing with some of these matters. Chris Calandra has even asked us to pass along that she is happy to hear suggestions from the congregation on programs in this area. Chris can best be reached at ccalandra4@comcast.net or through the GCC main telephone number (847) 724-2210.

There are few incorporation

Also, Stewardship, with which Planned Giving works closely, will be putting on two presentations in September on stewardship matters. The first will feature Sally Iberg on September 14 and deal with Mission and Commitment. The second will be a presentation put on by the Stewardship board a week later. As Planned Giving develops its program for Adult Education, we will keep you informed in future issues of The Caring Hand as well as in The Broadcaster.

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