C L E M S O N U N I V E R S I T Y

HORIZONS

FALL 2001

A Financial and Gift Planning Newsletter from the Office of Gift & Estate Planning

TAX RELIEF 2001

Here today, here tomorrow … but maybe not in 2001!

The largest tax cut in two decades has made its way through Congress with—by Washington standards—blinding speed. Known as the Economic Growth and Tax Relief Reconciliation Act of 2001, this incredibly broad legislation offers tax savings of various kinds to nearly all tax-paying Americans.

However, before you start planning what to do with your newfound tax savings, you need to be aware of some of the not-so-usual aspects of this new act:

- Some provisions are phased in over a number of years.
- Other provisions do not take effect until much later.
- *"Sunset" provisions could cause all the new tax breaks to disappear in 2011 unless re-enacted into law at that time.*

A Jump Start for the Economy

Rebate checks for all taxpayers

Anyone who paid federal income tax in 2000 is promised a rebate check by the new act. Rebates will be up to $300 for singles and married persons filing separately, $500 for heads of households, and $600 for married couples filing jointly. **Reason:** The source of the rebates is a new 10% federal income-tax bracket—down from 15%—on the first $6,000 of taxable income for singles and married persons filing separately, $10,000 for heads of households, and $12,000 for married couples filing jointly.

ACTION ALERT

What to do with your windfall? Consider an extra gift to our **annual fund.** By sharing your good fortune with the Clemson University Foundation, you will have the satisfaction of providing a special boost to support our work while enjoying tax savings of up to $235.

CONTENTS SUMMARY

Send for our complimentary booklet, Personal and Charitable Planning Under Tax Relief 2001.

AMT: Congress Giveth … and Taketh Away

Taxpayers subject to the alternative minimum tax may be disappointed to learn their tax breaks may not be as large as those subject to the regular tax. The AMT was designed as an alternate method of calculating tax to keep taxpayers from benefiting from too many tax breaks. Those subject to the AMT will be able to exempt an additional amount from the tax starting this year *($4,000 for couples, $2,000 for singles)*, but that additional exemption disappears after 2004—cutting their already-reduced tax savings even more.

The AMT now (ironically) rarely affects those with the highest income —but rather impacts middle and upper-middle incomes. Warning: Because the AMT has not been adjusted in light of lower rates under the new act, it is estimated that the number of taxpayers subject to the AMT could increase from the current 1.5 million to more than 35 million by 2016.

How Do You Rate?

Income-tax rates fall over the next five years

Federal tax brackets (with the exception of the 15% bracket) drop by one percent, effective July 1, creating "blended" rates that reflect a half point drop in 2001 and creating effective rate brackets of 27.5%, 30.5%, 35.5%, and 39.1%. The rates continue to drop until 2006:

Calendar Year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001*- 2003	27%	30%	35%	38.6%
2004 - 2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

*Effective July 1, 2001

Charitable planning pointer: All other things being equal, your deductions are worth more in 2001 than any other time in the foreseeable future, since tax rates will continue to fall. Perhaps your most flexible deductions are your charitable contributions. If you are planning a gift in the near future, it might make sense to make it this year.

Example: *Fred and Doris T made a pledge of $25,000 to the Clemson University Foundation, payable by 2006. In their (effective) 39.1% tax bracket, making their gift this year will save them $9,775 in federal income tax* ($25,000 x 39.1%). *If they wait until 2006, the top rate will have dropped to 35%. A gift that year would save $8,750.* Additional savings by making their gift this year: $1,025.

Phase-out of limits on itemized deductions. Currently, itemized deductions must be reduced by 3% of adjusted gross income in excess of $132,950. The new act trims the reduction by one-third in 2006 and 2007 and two-thirds in 2008 and 2009 and completely eliminates it after 2009. Planning note: Delaying deductions until this provision kicks in will generally produce no additional savings. Even though the deductions will be fully usable after 2009, they will produce less tax savings due to lower tax rates.

ACTION ALERT

- Accelerate deductions to take advantage of higher tax savings in the early years of the tax reductions.
- To the extent possible, consider delaying income until later years. For example, delay billing clients until late in the year, or choose income investments that delay crediting of interest until next year.
- Re-evaluate your charitable-giving plans. You may be able to give more without diminishing what you planned to leave to other beneficiaries because of the estate-tax changes and/or through tax savings on gifts during your lifetime.

Going, Going … Gone?

Federal estate tax phased out by 2010 —but could be back

Much of the fanfare surrounding the new tax act focuses on the gradual reduction and eventual repeal of the federal estate tax. Indeed, the impact of the new law is impressive.

Under the current system, a person dying today with a taxable estate of $10 million would owe $4,920,250. The tax on that same amount will drop to $3,680,000 in 2006 and to $2,925,000 in 2009. In 2010, there will be no tax at all. The savings come in two ways:

- Gradual reduction and eventual elimination of the maximum effective estate-tax rates that currently go as high as 60%.
- Increases in the “equivalent exemption”—the amount that can be passed on free of transfer tax. That amount is currently $675,000 and will go up to $3.5 million in 2009 before the tax is repealed in 2010. The tax will be back in 2011 unless the repeal is re-enacted all over again.

Rates will be cut and the exemption will grow according to the following table:

Calendar Year	Exemption	Highest Tax Rate
2002	$1 Million	50%
2003	$1 Million	49%
2004	$1.5 Million	48%
2005	$1.5 Million	47%
2006	$2 Million	46%
2007	$2 Million	45%
2008	$2 Million	45%
2009	$3.5 Million	45%
2010	Estate Tax Repealed	

Repeal brings modified carryover basis. When property passes at death under the current tax system, the “basis” of the property in the hands of the recipient is generally its fair-market value at the time of death.

This “stepped-up” basis system will remain in place until the estate tax is repealed in 2010. At that time, each estate will be allowed a stepped-up basis of up to $1.3 million (property passing to a surviving spouse will qualify for an additional $3 million). The basis of all other property will carry over from the basis of the decedent.

Note: Gift tax to stay. In 2004 the estate-tax exemption rises to $1.5 million, but the gift-tax exemption **remains at $1 million**, where it will stay permanently. The maximum gift-tax rate will be the same as the top estate-tax rate each year until 2010 when it will be equal to the top individual income-tax rate of 35%.

Advantages of lifetime charitable gifts. As the amount exempt from federal estate tax climbs over the next several years, more people may find charitable gifts during their lifetimes to be advantageous. Depending on the total value of a taxpayer’s estate, a transfer at death may provide no tax savings, while a gift during life generates substantial current income-tax savings.

Example: *Michael and Jane C each have an estate of $900,000. For years, they have each planned to leave $100,000 to the Clemson University Foundation and the balance to their children. Since it appears their estates will not be subject to estate tax after this year, they are pleased that there will be no tax on the $800,000 the children will receive.*

Because their current plan will no longer generate any estate-tax savings, Michael and Jane decide to make their gifts during their lifetimes. If they do this next year when they are in the 35% income-tax bracket, each gift will save $35,000 of income tax. This means the children would then receive $835,000 from each estate ($900,000 less $100,000 charitable gift plus $35,000 tax savings). *The children are ahead by $70,000.*

PLANNING STILL PAYS

Do not be lulled into thinking that the new tax law eliminates the need for estate planning. As always, there are many nontax reasons for planning, including:

- Deciding who your beneficiaries will be and how much each will receive, especially if you want to designate non-family members or charities.
- Establishing trusts to manage assets and control the amount and timing of distributions.
- Selecting persons who will be empowered to act on your behalf if you are unable.
- Designating those who can make health-care decisions if you cannot and expressing your wishes on the use of life-prolonging measures.
- Choosing guardians for surviving minor children.

If your estate currently exceeds $675,000, you will need to review your estate plans frequently during the next decade.

Supplement New Retirement-Savings Opportunities with Charitable Options

The new law increases maximum allowable contributions to IRAs and other types of retirement plans. Maximum annual deductible limits for IRAs will grow from the current $2,000 to $5,000 in 2008. Persons aged 50 and older will be able to make additional “catch up” contributions of $500 next year, growing to an additional $1,000 in 2006. Limits for certain other plans such as 401(k), 403(b), and 457 plans will increase over time to $15,000. In many cases, persons 50 and older will be allowed to make contributions up to $20,000.

Better yet, for participants in some plans, the new act creates a Roth IRA counterpart, allowing nondeductible contributions that can later be withdrawn tax-free. Virtually all employees covered by a 401(k) or 403(b) plan will be eligible to make these elective contributions, starting in 2006.

Some taxpayers may not be eligible for these additional retirement-savings options, while others may still feel the need for more retirement security. Those with significant charitable objectives may benefit by addressing both of these concerns at the same time.

Example: *Betty D, aged 50, a successful physician, makes all allowable tax-favored retirement-plan contributions. She decides to make a series of additional $20,000 contributions each year until she retires at the age of 65, to a special kind of charitable trust to supplement her retirement income.*

The trust grows by 10% each year until it starts distributing 5% of its value to her each year when she reaches the age of 65. That year the trust will distribute more than $31,000 to Betty, and that will grow to more than $76,000 during her life expectancy. In addition, she will generate deductions of approximately $110,000, and the trust will distribute more than $1.6 million to the Clemson University Foundation at her death.

ACTION ALERT

- Check out any new retirement-saving opportunities that apply to you.
- Analyze whether tax-deductible or “Roth” type plans that return tax-free income are better for you.
- Consider charitable life-income plans to supplement retirement income.

THE CLEMSON LEGACY SOCIETY

WE WANT TO THANK YOU!

If you have remembered Clemson in your will or through another type of deferred gift arrangement, please let us know by returning the enclosed card or by contacting the university’s Gift Planning Office. We would be delighted to acknowledge your thoughtful generosity and welcome you as a *Clemson Legacy Society* member.

Informing us of your plans greatly assists Clemson’s long-range planning for gift support. All information provided is confidential. If you wish, you may be registered as an anonymous member.

The *Clemson Legacy Society* honors individuals who have chosen to include Clemson in their estate plans. Through the *Society* we pay tribute to Thomas Green Clemson and honor those individuals who share Mr. Clemson’s insight and passion for shaping the university’s future.

Send for Our Free Booklet

The new tax act is incredibly broad, and the degree to which it reaches out into the future to effect change is unprecedented. It demands a higher degree of planning vigilance for a longer period of time than any previous tax legislation.

This issue of *Horizon* has just touched on the highlights of the new law. Chances are you have many more questions about its provisions and how they affect you. We invite you to request a complimentary copy of our booklet, ***Personal and Charitable Planning Under Tax Relief 2001***, by returning the enclosed card or calling our office.

For additional information concerning the practical aspects of making a gift to Clemson University or the Clemson University Foundation, please contact:

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