Life & Taxes!

The old adage that death and taxes are inevitable depends on the lens you look through – through my lens I see life, taxes and a chess game. Alas death is indeed unavoidable, so be sure to enjoy your time on Earth and be thankful for all of your blessings. During the Spring season taxes are on everyone's mind. Hopefully, during the whole year gifting and benevolence are also on everyone's mind. These two seemingly different topics can come together to make a beautiful union. If you are or have been thinking of making a gift to the church, or any qualified non-profit organization, you can get substantial tax benefit by doing so. If you itemize your income taxes you will be able to deduct any gifts made to qualifying entities, our church included. Many people today don't itemize their income taxes, but we have ways around that. You may still be able to give to the non-profit of your choice and still get a tax benefit even if you don't itemize. The Pension Protection ACT of 2006 made some ultra benevolent changes to IRA rules that everyone should know about. If you have any type of retirement plan such as an IRA, SEP, SIMPLE, Profit Sharing, etc. and you are age 70 ½ or older, and required to take minimum distributions, you can now give that minimum distribution, or any amount up to $100,000 to the church and receive a tax deduction regardless of tax filing status and whether or not you itemize deductions. This is a double deduction situation. You deducted the contributions to the plan when you made them, never paid tax as they grew, and you may now deduct the amount of your gift. This is unprecedented in tax history and the provision in the tax law expires at the end of 2007. So if you're so inclined, please take advantage now. If you own appreciated property such as stocks, real estate, land, limited partnerships or any other capital asset that you've been considering selling and are not because you fear the taxes you'll pay, a gift to the church could help with taxes tremendously. There are many ways to approach this but here is an example. Let's say you own a stock that you inherited decades ago and it's now worth $100,000. You don't want to sell because of the tax bomb it will create, but you could use some extra income each month. Your cost basis (what you paid or inherited it for) is $8,000. When you sell the stock you'll pay taxes on the $92,000 gain: taxes will likely be $18,400 (Federal and state combined). I know that sounds painful but there is a nice alternative. You may gift the stock to the church, receive a tax deduction for the gift (a certain percentage of the gift depending on the structure) of stock, the church can sell the stock tax-free and pay you a tax-advantaged income for life or a specified amount of time. The remaining balance of the account when you die will go to the church. Uncle Sam was cut out of the equation completely, you gained, the church gained and you saved substantial tax expenses. Through smart planning you made money by not paying tax on assets and income for several years. This strategy has several variations that we'll explore in more detail later. In the coming months I'll talk more about what other possibilities exist in the real world chess games of finance, taxation and benevolence. If you'd like to have additional detailed information on this subject and how to gift to the church please see Mike Chadwick. ☺