

Holiday Giving Offers Tax Benefits

With the holiday season just around the corner, now might be a good time to begin thinking about a year-end gifting strategy. Show your appreciation to those you love and to charities you admire while receiving tax savings and other benefits.

How do you develop a successful year-end gifting strategy? Here are a few suggestions...

- Establish a clear goal for your gift-giving.
- Compare the tax savings from different gifting options.

To help you start thinking about developing a strategy, we have provided some basic information about both individual and philanthropic gift-giving.

Giving To Individuals

For 2008, under the annual gift tax exclusion you can give up to \$12,000 to as many individuals as you choose each year. Gifts over this amount require filing a gift tax return and may incur a gift tax liability. If you are married and you and your spouse elect to split gifts, you can give each person up to \$24,000 per year tax-free. Even though these gifts are not tax deductible for income tax purposes, neither you nor the recipient will have to pay income or gift tax when the gift is made. In addition, the gifted assets and all subsequent appreciation on the gifted assets are removed from your estate, thus potentially reducing future estate tax liabilities. Outright gifts are simplest, but you may also want to consider gifts in trust, gifts to 529 college savings plans and gifts to UGMA/UTMA custodial accounts.

Giving To Charities

Most charitable gifts also provide you with a current year income tax deduction. There are several types of charitable beneficiaries, including public charities, pooled income funds, private foundations, donor-advised funds and Charitable Remainder Trusts.

Charitable Remainder Trusts: A Smart Way to Leave a Legacy

One effective and popular choice for individuals who wish to leave a lasting legacy to their favorite charity but also reap various financial benefits is the charitable remainder trust. In exchange for a future gift to charity, the charitable remainder trust provides you with several major tax and economic benefits. A charitable remainder trust allows you to:

- Defer capital gains taxes. Typically, a charitable remainder trust is funded with highly appreciated assets such as stocks. Because of the tax-exempt status of the trust, the highly appreciated assets can be sold free of immediate capital gains taxes. Instead, the capital gains are carried out to the current trust beneficiary as part of the regular distributions from the trust, and therefore are spread out over the whole term of the trust rather than being payable all up-front.

- Increase diversification and cash flow. The resulting sale proceeds from the sale of a concentrated, highly appreciated portfolio can be reinvested in more diversified assets. You (and possibly other family members) will receive regular distributions from the trust for life or a term of years up to 20 years.
- Receive a current-year federal income tax deduction. The deductible amount is the net fair market value of the property placed in the trust minus the present value of the payments to be made to you and/or your beneficiary. The deduction, which is available only if your trust meets all IRS requirements, is calculated using mandatory Internal Revenue Code formulas, interest rate assumptions and life expectancy tables (or the term of the trust if it is a fixed number of years).
- Reduce future estate tax liabilities. Assets transferred to a charitable remainder trust are not included as a part of your taxable estate. This could reduce future estate tax liabilities faced by your family.

Remember, a charitable remainder trust is irrevocable. Assets in the trust eventually pass to charity, not to your family. You should work with your tax and legal advisors so that a charitable remainder trust, or any other year-end gifting strategy, fits into your overall estate plan. If it does, you could potentially enjoy significant tax and economic benefits as well as leaving a lasting legacy to your favorite charity.

Geoffrey S. Close is a member of the NJSO Planned Giving Advisory Committee, CIMA, CAP, CPWA, First Vice President, Wealth Advisor for Morgan Stanley. For more information about year-end giving you can contact Geoffrey Close at 973.425.2309 or the NJSO development office at 973.624.3713

Morgan Stanley does not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. These materials are provided free of charge for general informational and educational purposes to our brokerage clients. These materials do not take into account your personal circumstances and we do not represent that this information is complete or applicable to your situation. We may change these materials at any time in the future without notice to you. We are not providing you with investment, tax or legal advice. You should consult your own tax, legal, investment or other advisors to determine whether the analyses in these materials apply to your specific circumstances. Particular legal, accounting and tax restrictions applicable to you, margin requirements and transaction costs may significantly affect the structures discussed, and we do not represent that results indicated will be achieved. We are not offering to buy or sell any financial instrument or inviting you to participate in any trading strategy. Investments and services are offered through Morgan Stanley & Co. Incorporated, member SIPC.