Otis College of Art and Design

New Charitable IRA Legislature

Congress Approves Fiscal Cliff Legislation, Includes Limit on Itemized Deductions for Higher-Income Taxpayer

Both the Senate and House have now approved H.R. 8, the American Taxpayer Relief Act of 2012; legislation to avert the so-called fiscal cliff. The compromise legislation includes a limit on itemized deductions – including the charitable deduction – but only at increased levels of income. Specifically, the new law would permanently raise ordinary income tax rates above $400,000 for individuals and $450,000 for couples to 39.6 percent from 35 percent. Notably, however, the new law provides for the return of the so-called Pease limitation, which reduces the overall value of itemized deductions of certain higher-income taxpayers, for income levels starting at $250,000 for individuals and $300,000 for couples. The new law also provides for the return of the personal exemption phase-out, which phases out the value of personal exemptions of certain taxpayers in the top two income tax brackets.

Congress Approves Two-Year Retroactive IRA Charitable Rollover Extension

H.R. 8 also includes a two-year retroactive extension of the IRA Charitable Rollover provision that lapsed on December 31, 2011. Specifically, the new law retroactively reinstates the Rollover for 2012 and allows any otherwise eligible gifts made after December 31, 2012 and before February 1, 2013 to be treated as a 2012 donation. The new law also specifies that any portion of a distribution from an IRA to a taxpayer made after November 30, 2012 and before January 1, 2013 may be treated as a qualified charitable distribution for purposes of the IRA Charitable Rollover. Finally, the IRA Charitable Rollover has been reinstated for all of 2013 and will now expire at the end of this year, on December 31, 2013.

Fiscal Cliff Legislation Includes Permanent Estate Tax Modification

H.R. 8 also includes a permanent modification of the estate tax. Specifically, the new law permanently extends the current exemption amount from the estate tax but will index for inflation, thereby exempting estates up to about $5.12 million for this year (i.e., $5 million indexed for inflation for years after 2011). The tax rate, however, will be increased to 40 percent (from 35 percent) on estate values above that exemption amount. Without any action, the estate tax would have reverted to pre-2001 levels of a 55 percent top rate and $1 million exemption. Further, the 2010 tax law that had previously set the estate tax rate and exemption level also reunified the gift tax with the estate tax, so the new measure approved by Congress yesterday also extends gift tax levels of a $5.12 million ($5 million indexed for inflation) exemption and a

40 percent top rate. In addition, it will extend portability rules related to the passing of an exemption amount onto a surviving spouse.

Contact tax professionals and your financial advisor if you are considering gifts under one of these laws. Please call Kristi Kraemer at (310) 665-6859 with any questions.

Otis College of Art and Design
Institutional Advancement Office
1700 East Walnut Avenue, Suite 650
El Segundo, CA 90245