

Understanding the New Federal Individual Tax Legislation

The Economic Growth and Tax Relief Reconciliation Act of 2001 brings initial confusion, some future uncertainty, and possibly some important decisions. For example, if you live in higher tax states such as New York, Massachusetts, or California, you may see your total estate taxes increase over the next few years since the credit for state estate taxes will be reduced and eventually repealed. The reduced revenue to states may cause a few of them to consider issuing a state death tax to make up for the repeal of the credit. It is hard to predict what may happen, or to project a situation about near-term changes in the federal tax legislation.

Because of these changes it is worthwhile to review your will and estate plans to make sure that they take the best advantage of the new law. If you haven't made any plans yet, it would be wise to do so, and avoid losing a portion of your estate to unnecessary taxes.

If you are like the vast majority of us who do not carry a large estate, a little bit of planning now may make a big difference later to your survivors. For example, balancing the amount held jointly with your spouse and the total exempted amount will result in a greater tax relief. If your estate is worth slightly less than \$2 million (including such assets as appreciated property and life insurance pay outs), by placing a minimum of \$1 million jointly under both spouses' names will enable you to bequeath the rest sans taxes to your children or beneficiaries. This action will not require any changes to your will. Adjusting the amount held jointly each year to account for the stepwise increase in your exempt total under the new law will increase the portion of your estate that is tax free.

We will not describe here all the subtle provisions of the new tax legislation, and readers are strongly recommended to review the revisions and discuss the details with their lawyers and/or accountants.

Estate Tax Changes

What, exactly, is an estate tax?

Estate taxes are considered a form of 'unified tax,' where the taxable amount is the sum of all gifts to individuals over \$10,000 per person annually made during one's life and the amount disbursed at death to individuals.

Who is affected?

Estate taxes affect, on average, the wealthiest 2% of the U.S. population—those who will owe taxes on their accu-

mulated wealth—and their heirs. Because of the increased exemptions, an even smaller percentage will be affected in future years.

What is the effect?

In June, 2001, Congress passed legislation that significantly increased the amount that is tax exempt, and significantly reduced the maximum tax rate on the remainder. These changes will follow a stepwise function beginning in 2002, and are supposed to culminate in 2010 when there will be no taxes on the inherited portion of the estate, and gifts will be taxed at the highest individual income tax rate. After 2011, the system is supposed to revert back to the same rate as 2001, with the first million exempt. Note that the gift exemption increases to \$1 million in 2002 and remains set at that level, and is not supposed to be repealed in 2010 but will be taxed at the highest income tax rate.

How can I make my charitable gifts work for me?

In these uncertain times, relying on conventional Individual Retirement Accounts as the first source for charitable giving is a good practice to follow. The balance of an IRA is subject to estate taxes, and withdrawals are taxed as income. Both income and estate taxes can be avoided by donating the assets to charity, and preserving your other investments such as Roth IRAs, whose withdrawals are not subject to income taxes.

For those who wish to make large gifts, advisors recommend that the gifts be made during the lifetime of the donor if the estate tax is repealed (as planned in the new legislation) so that the full benefits of the income tax deduction can be achieved. Some recommend making larger gifts now, while the income tax bracket is high, to claim a greater deduction before the rates drop. "There is no question that you save if you give now," said Albert R. Rodriguez, partner in Rodriguez, Horri & Choi, a tax and charity law firm in Los Angeles (NY Times, June 3, 2001).

Should the estate tax be repealed, a charitable remainder trust may still be very attractive, allowing donors to take immediate income tax deduction, avoid capital gains taxes on highly appreciated assets, receive income for life, and leave the charity the remains to continue its good work.



John Rigden at right, speaking; Owen Gingerich at left.

papers preserved and indexed, and the historians and archivists who work with these papers, the general public—including historians, school children, authors, scientists and others—use the Center on a daily basis to find authentic information on the lives of scientists and their discoveries. The good works of the Center clearly benefit a broad group of individuals.



Dudley Herschbach (left) and Marc Brodsky (right).

The Committee next examined the Center's endowment and long-term financial picture, and determined that it would be necessary to increase the endowment to ensure the financial stability and endurance of the Center's education and outreach programs. For many years the Center has received the bulk of its funding from the American Institute of Physics, but with lowering revenue projections based on assumptions of e-publishing and the reduction in journal



Charles Duke

purchases, the Center needs to become more self-sustaining. Therefore the Committee seeks to endow a selection of the Center's education, outreach and preservation programs. These programs are expected to have strong value for those served by the Center.



L-R: Mark McDermott, John Toll, and Robert Resnick

Center for History of Physics Executive Committee of Friends

The Executive Committee of the Friends of the Center for History of Physics met on May 24, 2001, in Cambridge, MA to discuss the Center's endowment. Members discussed the mission and programs of the Center and the groups who stood to benefit the most from its activities. While the Center's primary clientele seem to be the scientists who have their unpublished papers



Mary Jo Nye



Joe Anderson (left) and Spencer Weart (right).

The types of programs that will most benefit from a stronger endowment are:

The Oral History Interviewing Program - about \$300,000 to endow a portion of the program.

Preservation of Vital Records Program - about \$400,000 to endow a small but critical part.

Education Outreach - about \$600,000 to staff and augment this program.

On-line Resources - about \$800,000.

World Wide Web Exhibit Hall - about \$1,000,000.

**AIP Center for History of Physics
Executive Committee of the Friends - 2001**

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40th Anniversary of the Niels Bohr Library

The Center will be celebrating the 40th anniversary of the Niels Bohr Library next year and we invite our Friends to join us in feting its many accomplishments. A special reception will be held on Friday evening, April 5, 2002, at the American Center for Physics building in College Park, MD. Talks and tours of the Library and archives, and special guests will commemorate this event.

Invitations will be mailed to many of our Friends and donors early next year. But don't wait to let us know if you can make it —send an e-mail or note to the Center to let us know you wish to come.

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Leaving a lasting legacy.

Please contact me regarding the following:

- _____ I wish to make a pledge of support in 2001 to the Center.
- _____ I want to donate books, photographs, and other source materials to the Center.
- _____ I have expertise and time to give in assisting the Center's programs.
- _____ I wish to become part of the Legacy Circle with a planned gift.

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Or Call:301-209-3006 and ask for
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