

Tax Law

Why 2012 Is a Great Year to Make a Philanthropic Gift

Overview

On June 28, 2012, the Supreme Court ruled that the Affordable Care Act (ACA) is constitutional. In so ruling, the Supreme Court confirmed that Congress has the power to require healthcare coverage for 30 million people who might otherwise be uninsured. The Supreme Court's holding is significant to higher-income taxpayers. The ACA's revenue provisions call for imposing a 0.9% Medicare health insurance tax and a 3.8% tax on "investment income" on individuals with gross income of \$200,000 or more per year (or \$250,000 or more on married individuals filing jointly). Assuming that the ACA will not be repealed in the coming weeks, taxpayers should prepare for income taxes to significantly increase on January 1, 2013.

In addition to the taxes described above, the special tax rates on long-term capital gains and qualified dividends will expire on December 31, 2012. Starting January 1, 2013, the tax rate on long-term gains will rise from 15% to 20%. Also starting in 2013, the distinction between ordinary and qualified dividends will disappear, and all dividends will be subject to the ordinary tax rates (39.6% or higher for high-income taxpayers). It is likely that these tax increases will go into effect as a supplement to the ACA's revenue provisions.

Planning Tips for 2013

Don't wait to sell long-term capital gain property. If you are holding onto appreciated property that you are planning to sell, consider accelerating the sale to close before year-end in order to take advantage of the historically low income tax on capital gains in 2012.

If you know that you will have ordinary income, incur it sooner rather than later. If you can control the timing of ordinary income events (e.g., receiving bonuses, stock dividends, interest payments), you should similarly consider accelerating these events to occur before year-end in 2012, if possible.

Use your charitable income tax deduction. Itemizing deductions is a great way to offset your taxable income and maximize your tax benefit. Making a charitable gift to a qualified 501(c)(3) organization is a deductible expense and a rewarding way to offset your taxable income in 2012.

Ask your tax or estate planning professional about how to maximize your overall tax savings by making philanthropic gifts in 2012.

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