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SUGGESTIONS FOR PRESERVING WEALTH

2007 YEAR-END ESTATE AND GIFT TAX PLANNING

For those of you who have an interest in making year-end gifts to your children and grandchildren, we have attempted to set out below the techniques for doing so without incurring any gift tax. Many of these techniques may also reduce your overall income tax burden.

The current federal estate tax exemption is \$2,000,000, although this amount will shrink to \$1,000,000 in 2011 unless Congress decides to increase the exemption. An important method of insuring that your estate will not be subject to estate tax is to make sufficient gifts during your lifetime so that at your death your estate is smaller than the then-current exemption amount. Your lifetime gifts are, however, subject to a gift tax that is imposed at the same rate as the estate tax. This "unified" system is intended to eliminate any tax advantage to making gifts. But certain types of lifetime transfers are not subject to gift tax and the end of the year is a good time to make these tax-free gifts.

The most commonly used method for tax-free giving is the annual gift tax exclusion, which allows you to annually make a gift of up to \$12,000 to each donee with no gift tax.

There is no limit on the number of donees to whom you can make such gifts.

Your annual gift tax exclusion expires at the end of each year, so the year end is the appropriate time to take advantage of it. If you want to make a gift that exceeds the amount of the exclusion, you can effectively double the exclusion by making one gift in December and the second in January. For example, if you are married, you can make a tax-free gift of \$48,000 to any individual by making a gift of \$24,000 in December and another \$24,000 in January.

In addition to the annual gift tax exclusion, you are allowed to make tax-free tuition payments for any individual. There is no limit on the amount that can be excluded, except that the payment must be to a tax-exempt school and for the purpose of education and training. The exclusion applies only to tuition — payments for room and board, books, or related expenses are not eligible. Because there is no limit on the amount of the gift, its timing is less important than it is with the annual exclusion. Nevertheless, if you have the choice of making either a tuition payment or an

annual exclusion gift for a particular beneficiary, it will usually be better to make the tuition payment, because that will give you the option of making an annual exclusion gift later in the year.

If the tuition payment is made on behalf of a dependent, and if your adjusted gross income is \$160,000 or less (for a joint return), then you may also be entitled to an income tax deduction for the payment. This deduction expires at the end of 2007, so be sure to contact your tax advisor as soon as possible if you think you may qualify.

The payment of a beneficiary's medical expenses is also excluded from the gift tax, with no limitation on the amount excluded. To qualify for this exclusion, the payment must be made directly to the provider, and it must be for medical expenses that would qualify for an income tax deduction. You can also claim an income tax deduction for the payment if it is made for your spouse or dependent.

The exclusion for medical payments includes the payment of medical insurance. If you have a child or grandchild who is paying for his or her own insurance, payment of their insurance premiums is an efficient means of making a tax-free gift that does not consume the \$12,000 annual exclusion.

The year-end is a good time to review your charitable giving to insure that it is being done in the most tax-efficient manner. Charitable giving is a form of estate planning, because a gift to charity will never be subject to

estate or gift tax. If you are planning to make a large gift before January 1st, you should contact your tax advisor in order to review its impact on your 2007 income tax liability and whether it may make sense to defer all or a portion of the gifts to 2008. If the gift is property and will require an appraisal (usually required for gifts of property with a value in excess of \$5,000, other than publicly traded stock), you should start the process as soon as possible so that the appraisal is available before year-end.

This year presents a special one-time planning opportunity if you are at least age 70-1/2 and wish to make a charitable gift from your IRA. In 2007, you can transfer up to \$100,000 to charity directly from your IRA. The gift may be made in lieu of, or in addition to, your annual minimum required distribution. Because the gift passes directly to charity, it has the benefit of not increasing your adjusted gross income (thereby lessening any alternative minimum tax liability) and is not subject to the cutback on itemized deductions. If you are interested in making such a gift, you should defer taking your 2007 minimum required distribution until you have consulted your tax advisor in order to demonstrate or verify the tax benefits of such a gift. This special provision will not be available in 2008.

In conclusion, we hope that the information in this newsletter is useful in your year-end gift planning. If you have any questions in connection with any of the planning techniques that we have described, please feel free to call Glenn Booker.