Having a net worth of $1 million, or maybe even $2 million, does not give you entry into such a small exceptional group as used to be the case. By some estimates, between 5 and 6 million American households have a net worth of at least $2 million. This means that currently there are considerably more people who should consider how best to shield their money from the IRS and pass it on to their heirs, assuming that is their wish. One such strategy that just became more attractive, due to new federal legislation, is the making of gifts during one's lifetime.

Among the significant pieces of the new federal tax law that was passed in December 2010 were very substantial, albeit temporary, increases in the lifetime gift tax exemptions for individuals and couples. For 2011 and 2012, these exemptions have increased five-fold, from $1 million to $5 million for individuals, and from $2 million to $10 million for couples. There will be no gift tax imposed on gifts that do not exceed those totals. The same law reduces the tax rate for gifts above the exemptions to 35% from a scheduled rate of 55%, thus benefiting individuals wealthy enough to make gifts that exceed the exemption levels.

Last year, Congress also raised the exemption for federal estate taxes to $5 million, and lowered the estate tax rate to 35%, also for a two-year period, so that, taken together, the new federal estate and gift tax rates are more favorable for taxpayers than they have been for approximately 80 years.

This is an area of the law for which sophisticated professional help is especially appropriate, but there are some general considerations to bear in mind when devising a plan for gift-giving. For example, making a gift now, tax-free, makes good sense, especially for assets that are appreciating rapidly, so that future appreciation can be shielded from taxes. It is conceivable that Congress in the future could "claw back" gifts that are greater than the exemption at the time the donor dies, but, even in that event, any income or appreciation occurring after the gift date should be tax-exempt.

Other considerations for giving are more emotional than legal. Financial considerations aside, it may be a high priority for you to make sure that assets with sentimental value are preserved for future descendants, such as by putting them into a trust. Or gift-giving decisions may entail weighing some remorse over parting with assets that took so long to acquire against the desire to improve the lot of those receiving the gifts. Of course, a contrarian view might see large gifts as mainly abdicating control and risking having everything squandered. In any case, if these considerations are all reconciled in favor of making major gifts, now may well be the time to take the plunge.

DON’T LOSE YOUR CHARITABLE DEDUCTION

For you to claim a federal income tax deduction for a charitable donation valued at $250 or more, you must obtain from the recipient of the donation a "contemporaneous written acknowledgment" letter. Failure to obtain such a letter can result in a disallowance of the deduction by the IRS.

The acknowledgment letter, which may be in the form of a thank you letter to you as the donor, should include the following information: the name and address of the recipient of the donation; the amount of a cash gift or, if not in cash, a description of the donation sufficient to identify the nature of the gift; and, if applicable, a statement that no goods or services were provided by the recipient in return for the donation, or a description and good-faith estimate of the value of any goods and services that were provided by the recipient in return for the donation.

As some donor taxpayers have discovered to their consternation, including some who have made very large donations, the timing of the receipt of the letter can be as important as its contents. The rule to bear in mind is that you must obtain the acknowledgment letter by the date of the filing of the tax return for the year in which the charitable contribution was made. You run the risk of being denied the deduction in assuming that it will suffice if the letter has been promised or will be received after the return has been filed but before you would ever hear from the IRS.

Recently, the Chief Counsel for the IRS underscored the need for having the donation acknowledgment letter in hand (or in your e-mail inbox) when you file your return in order to qualify for the deduction. The federal Tax Code actually has a provision that states that the donor is not required to obtain an acknowledgment letter if the recipient organization itself files a return that meets applicable requirements and includes the required information about the gift. Nonetheless, because no implementing regulations on this law have yet been issued, the Chief Counsel determined in a memorandum that a donor cannot take this route to claim the deduction.

The takeaway lesson for donor taxpayers is to be sure that you receive your acknowledgment letters before you file, and don’t make the mistake of assuming that the IRS will cut you some slack if, for whatever reason, that deadline is missed.