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Foundation

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Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

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Exercising Options Ahead of Tax Increases

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Dow Jones **Newsires**

The common wisdom on stock options is to exercise later, rather than sooner. Higher tax rates next year, though, make it smarter for some people who have been holding onto options to act now.

Exercising options while capital gains or regular income-tax rates are low could save a chunk of money from going to the Internal Revenue Service.

The top two regular income-tax rates are set to increase from the current 33% and 35% to 36% and 39.6% in 2011 with the sunset of tax cuts under the Economic Growth and Tax Reconciliation Act of 2001. Options holders already in those brackets, or those who will move into them because they exercise nonqualified stock options, could save 3% to 4.6% in federal income tax by doing so this year, according to Brandon G. Baker, an assistant vice president at the Wilmington Family Office, Inc.

Nonqualified stock options, widely used by public companies, are taxed in two pieces: first, as ordinary income when exercised, and then as a capital gain or loss when the owner sells the stock.

In general, there has been "a lot of buzz about trying to accelerate compensation income, including from stock options, into this year, to take advantage of lower tax rates," said Elizabeth Drigotas, principal, Deloitte Tax LLC.

Another window of opportunity is that an overall limitation on itemized deductions and the phase-out of personal

exemptions under the Economic Growth and Tax Reconciliation Act of 2001 don't apply in 2010; this allows a taxpayer the maximum deduction available to offset additional income recognized if he exercises nonqualified stock options this year.

Congressional activity adds even more weight to all of this.

In bills introduced by lawmakers to fund health-care overhaul, the House proposed a 5.4% surtax on the income of married individuals with modified adjusted gross income exceeding \$1 million. The Senate proposed an increased Medicare payroll tax of 0.5%. So, exercising nonqualified stock options this year could avoid additional income or payroll taxes in later years.

Don Weigandt, a wealth adviser in the Los Angeles office of J.P. Morgan Private Bank, said he recently advised a client who had been holding onto options to exercise them. The client, a former CEO of a public company, had nonqualified options due to expire next year.

While it made sense to exercise in this case, it may not in other cases where options are set to expire in several years hence, according to Weigandt. How soon to exercise "depends on what's happened to the stock's value, how much of the remaining option period is left, and the holder's cash needs," he said.

Each individual should analyze the particular circumstances before deciding to sell.

Indeed, when deciding whether to buy or hold options, it is key to think about the future of tax rates on ordinary income and capital gains, and about how the alternative minimum tax might play in as well, said Amy McAnarney, executive director/vice president at the Tax Institute at H&R Block.

Incentive stock options are trickier, tax-wise, than nonqualified options. That's because they count as taxable income when figuring the alternative minimum tax, and can trigger the AMT. ISOs are a popular option for start-up companies, while nonqualified options are a widely used employee stock-option benefit.

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