



"Giving" Advice

Inspiring and Connecting Thoughtful Giving



**TOLEDO COMMUNITY
FOUNDATION**
608 MADISON AVE
SUITE 1540
TOLEDO, OHIO 43604-
1151

419-241-5049
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ABOUT YOUR FOUNDATION

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

Tax Watch: New Legislation Provides Shelter From the Storm

A new piece of tax legislation could make this the most powerful giving season yet for your philanthropically minded clients seeking enhanced tax benefits.

A perennial topic, philanthropy, gains momentum during the holiday season as advisors' thoughts turn to year-end giving and planning for their clients. This year, thanks to the Katrina Emergency Tax Relief Act of 2005 (KETRA), advisors and their clients have a limited time to take advantage of an IRS rule that could make a huge difference in the lives of people—and a significant dent in their tax bills.

For financial advisors, KETRA represents a powerful opportunity to connect with clients and address their charitable values and concerns.

How KETRA Works

Taxpayers normally can deduct their charitable contributions of cash only up to 50 percent of their adjusted gross incomes. If they give more than that, they must carry forward the excess amount and deduct it the following year or years. Excess gifts can be carried forward for up to five years. In a one-time-only offer, KETRA suspends the 50 percent limit for gifts of cash made between August 28, 2005 and December 31, 2005 to qualifying organizations.

KETRA also excludes qualifying gifts from the 3 percent floor—the provision that reduces itemized deductions for individuals with incomes that exceed \$145,950 (\$72,975 for married couples filing separately). The more your client makes, the more he or she loses, with this provision causing some high-net-worth taxpayers to forfeit as much as 80 percent of their deductions, including their charitable deductions.

The result effect of suspending the 50 percent limit and excluding KETRA gifts from the 3 percent floor is that donors can effectively eliminate most, if not all, of their federal income tax liability for 2005 if they make substantial charitable gifts to qualified organizations.

Qualified organizations include public charities (but not supporting

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.

organizations or donor advised funds at public charities), governmental entities, and a small group of private foundations consisting primarily of private operating foundations. The law also excludes gifts to fund charitable remainder trusts and charitable lead trusts.

Making Donations Count

To qualify for the tax break, donations must:

- **Be made between August 28, 2005 and December 31, 2005**
- **Be in cash**
- **Go to a public charity or a private foundation with 50 percent deductibility**

Although KETRA excludes gifts to fund donor advised funds and gifts to supporting organizations, the law does let donors make qualifying gifts to other kinds of funds at a community foundation, including funds designated for a particular charity and field-of-interest funds.

While some have read KETRA as a hurricane relief bill (and certain provisions do apply only to those affected by the disaster), the spirit of the law encourages giving across the board. Due to the recent spate of natural disasters, some charities have seen a slump in donations. That's why all public charities—especially community foundations, with their bird's-eye view of the needs on the ground—qualify under KETRA.

Connecting With Clients

There are two major reasons why financial advisors should address KETRA with their clients, according to Kristen Brown Smalley, J.D., a gift-planning advisor for the Triangle Community Foundation in Research Triangle Park, North Carolina.

“First, there's been a widespread misconception that the law is only applicable to Hurricane Katrina victims and those who give to them,” Smalley says. In fact, many clients—and their favorite charities—stand to benefit from the legislation.

Second, KETRA provides an opportunity to connect with clients. “Any time you provide information that is substantive, valuable, and specialized to your client's needs, your relationship grows,” Smalley says. “This is an opportunity to show your knowledge about a topic that's important to them.”

Even if your client is not ready to make a large gift now, Smalley says, KETRA can help jump-start a discussion about charitable giving, providing you one more point of contact with your client.

James J. Holtzman, CPA, CFP, with Legend Financial Advisors, Inc., in Pittsburgh, agrees. His firm dedicated its last newsletter to KETRA and has been fielding calls from clients eager to make leadership gifts.

Advisors should also familiarize themselves with other KETRA-related benefits—such as “indirect” IRA rollovers for retirees and tax credits for qualified businesses—and discuss them with eligible clients.

Working With Community Foundations

Despite excluding donor advised funds and supporting organizations from the legislation, KETRA is an opportunity for advisors to connect their clients with community foundations. “A lot of the public—and that includes advisors—don’t really understand how community foundations work,” says Smalley. “KETRA provides an opportunity to learn about all aspects of the community foundation, including unrestricted and field-of-interest funds.”

Indeed, unrestricted and field-of-interest funds have been the mainstay for hurricane relief. In many communities, the most pressing needs—say, for education or child protection—have dedicated funds associated with them.

For Holtzman’s clients, the restriction on donor advised funds is a nonissue. “We have numerous clients calling to see if a donation to the general fund at one of the Pittsburgh community foundations would apply under KETRA,” Holtzman says. Of the 10 to 15 percent of the firm’s clients who donate to community foundations, the majority of them do so through unrestricted gifts. “They feel it’s the most effective way to give back to their community, and they trust the organization to make their gift count,” Holtzman says.

Planning Under KETRA

“For charitably minded high-net-worth or high-income clients, KETRA represents some unique planning opportunities for a very short window of time,” says Vaughn Henry, a gift and estate planning consultant based in Springfield, Illinois.

Clients with major assets and low incomes—an elderly client with highly appreciated stocks living on Social Security, for example—are especially well positioned to benefit under KETRA.

“In the past we’ve always talked about giving appreciated assets,” Henry says. “Now, under KETRA, this might be the one time when it makes more sense to sell the appreciated asset and give the cash to charity.”

For example, one of Henry’s clients in California intended to donate a valuable piece of property to his local community foundation. After running the numbers, Henry determined that it would be more favorable under KETRA to sell the land first and donate cash, the reverse of the

typical strategy. "Now he can make full use of the charitable deduction, which effectively washes the capital gains tax," Henry says. "At the same time, the charity would just as soon have cash."

For a short time, KETRA rearranges options for estate planning, too. "Some clients would give more were it not for the tax penalties," Henry says. "Now might be the time to make planned gifts—and live to see them used."

"Stretch" gifts—wherein a client fulfills a multiyear pledge in one lump sum—benefit donors under KETRA and make long-term planning more predictable for community foundations and other charities.

Due to the complexity of the law, advisors should work with a client's tax and legal counsel. Advisors should also weigh the impact of state income tax laws on the gift, particularly in states that do not automatically conform their income tax law to the Internal Revenue Code.

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