



# "Giving" Advice

Inspiring and Connecting Thoughtful Giving



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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

## Tips for the Tax Savvy

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MARY DEIBEL  
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Millions of taxpayers could pay more next year if Congress lets popular tax breaks expire. That makes it worthwhile to think through your tax situation now instead of waiting until December to plan tax-savvy strategies.

For starters, "Don't be clueless about the Alternative Minimum Tax," said Kimberly Sterling, a Certified Public Accountant and financial planner in Orlando, Fla.

The Alternative Minimum Tax denies favorite deductions for people with hefty incomes, big capital gains, stock options or large families. Some 3 million households will be hit with it on their 2005 taxes, but absent congressional relief, it will explode to 14 million households, or 1 in 5 taxpayers, next year and 1 out of every 3 by 2010.

President Bush and Congress have temporarily patched the Alternative Minimum Tax through 2005 so it doesn't hit millions more taxpayers. But the president hasn't called for fixing it for 2006 and wants any changes enacted as part of overhauling the entire tax code – his priority for next year.

Knowing if you're at risk from the Alternative Minimum Tax now or next year lets you know if you should speed up or postpone year-end bonuses and other income as well as deductions like state and local taxes that the Alternative Minimum Tax denies, Kramer says.

Lest you think you're not at risk, consider Margaret and David Klaasen, who learned the hard way when they tried taking 12 personal exemptions for themselves and each of their 10 children. The IRS and tax court turned them down, adding \$1,065 in Alternative Minimum Tax to the

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.

Kansas couple's regular income tax bill.

Other provisions set to expire absent Congress' OK include:

- The state and local sales tax deduction. Nobody's sure if it will be renewed because it lost its most powerful proponent when Texas Rep. Tom DeLay was stripped of his House GOP leader's job.

Taxpayers who itemize can choose to deduct state and local sales tax instead of state and local income taxes through the 2005 tax year – a decision that's a no-brainer for taxpayers from Florida, Nevada, South Dakota, Tennessee, Texas and Wyoming, states with no general income tax.

For taxpayers elsewhere, the decision isn't so clear-cut. So tax advisers suggest you run the numbers if you're considering big purchases – a car, a boat, major appliances – between now and Dec. 31 that could make the sales tax deduction worthwhile.

Snowbirds who split time between another state and Florida should consider that Florida itemizers get a two-fer: a deduction of state and local sales taxes plus the write-off for Florida's "intangible" property tax on stocks and bonds, says Martin Nissenbaum, head of personal income tax planning for national accounting firm Ernst & Young.

- The \$250 write-off for elementary and secondary-school educators for out-of-pocket expenses on classroom supplies, including books, maps, computer equipment, art supplies and chalk.

- A special charity deduction. Under the Katrina Emergency Tax Relief Act of 2005, donors to any charity this year can deduct the entire contribution on their 2005 taxes next April instead of the usual maximum of 50 percent of Adjusted Gross Income.

For big donors, cash contributions made between April 27 and Dec. 31, 2005, that exceed their income can be carried forward the next five years to offset future taxes.

Attorney-accountant Mark Luscombe of tax publisher CCH Inc. said this is one provision of the hurricane tax relief law that doesn't require any connection with Katrina.

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Be tax-smart with your Christmas bonus if you get one, says Certified Financial Planner Scott Sarber of Kennewick, Wash.

"Don't blow it all on a luxury item, but max out first on your Individual Retirement Account and 401(k) plan at work," he says. After that, "put 50 percent of the rest toward reducing your debts – especially credit card

debt; save another 25 percent for college and other short-term goals, and spend the last 25 percent as you wish."

Certified Financial Planner Kent Kramer of West Des Moines, Iowa, advises to "play Santa Claus first to yourself by funding your retirement accounts before you start giving to others during the holidays."

The 2005 IRA limit is \$4,000, with an additional \$500 for taxpayers 50 and older. For 401(k) and other tax-deferred retirement savings plans at work, the maximum for 2005 is \$14,000, and \$18,000 for workers 50 and older.

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Senior tax analyst Bob Scharin of tax publisher RIA suggests "gifting" stocks that have increased in value. Give \$5,000 worth of shares you bought for \$1,000 to a favorite charity, and you get a \$5,000 deduction and the charity gets the stock at market value.

The tax code also lets you "gift" \$11,000 a year to any person you wish without owing federal gift tax so long as you don't give more than \$1 million over your lifetime.

A gift of appreciated stock with a current market value of \$11,000, for instance, would face a 5 percent capital gains tax for people in the lowest 15 percent tax bracket instead of the 15 percent capital gains rate better-off taxpayers would owe on selling their shares. So it may make sense, Scharin says, to "gift" appreciated stock to youngsters, too, when they typically fall in the 15 percent tax bracket.

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