

**United Way
of Santa Barbara County**



Heritage Club members Karen Anne Platt, Rick Nightingale, and Karen Knight

Year End Planning: It's Not All About Taxes

Charitable giving flourishes at the end of the year. Of course, the holiday season encourages giving, but there may be another reason — charitable giving is part of overall planning. The end of the year is a natural time to look back and look forward — what has worked? What needs improvement? What is next on the list of things to do?

Making charitable gifts often is part of the end-of-year accounting. Reviewing the past can help you decide what charitable planning works best. And, focusing on the future can help you can decide what more your charitable giving can do.

In this issue of *Visions*, we highlight strategies that can enhance your year-end gift planning. These strategies are simple and easy to put in place, and they can help you make a lasting difference in the lives of others while doing more for yourself. An especially important giving opportunity deals with the new IRA Charitable Rollover provision.

We think you'll find this issue of *Visions* timely and helpful as you prepare for the end of the year. And, if you're interested in more information, we invite you to send for our newly updated 2007 *Taxpayer's Home Companion*. As always, please let us know how we can help.

visions IN **PERSONAL PLANNING**

How Planned Giving Can Make a Difference

Planned giving refers to charitable gifts that take a little more thought to complete. It is not the case that a planned gift somehow means more than another gift. Rather, planned giving involves a discussion about the best way to make a gift.

Here is an example: Doris Pride (age 66) would like to make a significant gift to honor the memory of her husband. She owns her house, and she lives modestly on an income of Social Security and a pension, plus the gains from a large securities portfolio (that she usually reinvests). She wants to make a substantial gift, but worries about upsetting her long-term financial plans.

At a luncheon, Doris sat next to a gift planning professional at our organization. They talked about all the different ways that Doris could make a significant gift that would not disrupt her lifestyle or cost her dearly:

- **A gift of the house with a retained life estate** — Doris could give the charity the title to her house, but retain the right to live in the house as long as she likes while enjoying significant tax savings.
- **An outright gift of stock** — Doris could give the charity shares of stock from her portfolio at a lower cost than an equal amount in cash.

- **A life income gift** such as a charitable remainder trust — Doris could make a gift of appreciated property that is converted into a lifetime income for her.

In each scenario, Doris could make a charitable gift and create tax and financial benefits through that gift, but in such a way that made financial sense for her. It was exciting to learn that she could make the gift she envisioned if she planned it right.

And that is the role planned giving plays in our organization — discussing mutually beneficial ways to reach charitable goals.



What are the best outright gifts?

Many people simply write a check to make a charitable gift. However, there is another way to make a charitable gift that has a double tax advantage that could make a larger gift possible.

The first tax advantage to any charitable gift is an income tax deduction. A donor can deduct the value of a gift to a qualified charity. However, it is important to note that a donor must itemize his or her deductions in order to claim the charitable deduction for a contribution.

For instance, if an individual taxpayer has a taxable income of

\$82,100, she will owe about \$17,100 in tax. However, if she had made a charitable contribution of \$5,000, her tax liability might be only \$15,700 — a \$1,400 tax savings. So, the real cost of a \$5,000 gift is actually \$3,600 once you consider the tax savings to you.

The second advantage is available to donors who make a gift of long-term appreciated property. Generally speaking, the donor can deduct the fair market value of a charitable gift. For instance, assume you purchased 100 shares of stock for \$2,000 several years ago and now the stock is worth \$7,000. You can deduct the full \$7,000 rather than just your basis in the stock (usually what you originally paid). If you were to sell the stock, you would owe \$750 in capital gains taxes. However, if you give the stock to a charity, you owe no capital gains taxes!

It is for this reason that we always want to remind our generous donors of the tax advantages that come along with certain ways of giving.

Remember, appreciated property is more than just stocks — the term can mean real estate, other securities such as bonds and mutual funds, and collectibles.

TIMELY TIPS FOR 2007

The old cliché is that the only things that are constant are death and taxes. However, though taxes are always there, the taxes themselves can change — rates change, exemption and deduction amounts change, and other factors come into to play from year to year.

- 1. A choice when deducting local and state taxes.** In 2007, an individual who itemizes deductions has the choice of deducting state and local income tax or sales tax on the federal tax return. This can be helpful when one has purchased one or more large ticket items in a single year.
- 2. New recordkeeping requirements for cash contributions.** An individual who wants to deduct a cash contribution to a charity must keep as a record of the contribution a bank record (such as a canceled check, a bank copy of a canceled check, or a bank statement containing the name of the charity, the date, and the amount) or a written communication from the charity. In our acknowledgments that we send to donors, we include our name, the date of the contribution, and amount of the contribution.
- 3. IRA Charitable Rollover set to end on December 31, 2007.** The IRA charitable rollover has been a tremendous success in 2006 and 2007. It is a way that generous individuals can direct an amount straight from an IRA to a charity. Because an individual never actually “takes” the money out of the account, the amount directed to a charity from the IRA is excluded from the individual’s income for federal tax purposes. There are some limits — the donor must be at least age 70½ for starters — but also great advantages to be gained, all while helping our organization. Contact our offices and consult with your tax advisors for more information.



FAST FACTS

THE IRA CHARITABLE ROLLOVER

- Donor excludes the IRA charitable rollover amount from federal income taxes
- Easy to implement the IRA charitable rollover
- Donor can exclude up to \$100,000 a year by using the IRA charitable rollover
- Donors may count the amount of the transfer towards the annual *required minimum distribution* for tax-deferred retirement accounts
- Donor must move on the IRA charitable rollover before the end of 2007



QUESTIONS, QUESTIONS . . .

What are the 2007 income tax rules concerning:

- Capital gains and dividends?
- Alternative minimum tax?
- Personal exemptions and individual deductions?
- How to itemize deductions?

Be sure to return the enclosed card for your free copy of the 2007 ***Taxpayer's Home Companion***. It includes the basic numbers and information needed to get started on your 2007 tax return, plus an insightful summary of the different tax-advantaged ways to get the most out of your charitable giving.

Let Us Help

The end of the year is a busy time for all of us. Certainly, many of our supporters make gifts and volunteer their time to help make a difference in what we do. This support inspires us to reflect on our mission, what we do and how we can better serve our community. Together, we look with optimism to the arrival of 2008 and the great things that lie ahead. Thank you again for your continued support.

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