

Chester County

COMMUNITY FOUNDATION



INFORMATION FOR ATTORNEYS AND FINANCIAL PLANNERS

"We make a living by what we get, but we make a life by what we give." Winston S. Churchill

NEWS ALERT - 09/18/2003

HOUSE CLEARS CHARITY BILL, SAVES TAX SHELTER CURBS FOR LATER

After members debated and rejected an offset measure to curb abusive tax shelters, the House voted September 17, 2003 to clear a package of tax cuts to encourage individuals and corporations to donate more funds to charities.

The charitable giving legislation contains several items President Bush proposed in his budget, including plans to allow taxpayers who do not itemize to deduct charitable contributions, permit retirees to contribute funds from an IRA without paying a tax penalty, increase the deduction for food donations, and reform the excise tax on income earned by private foundations.

House Majority Whip Roy Blunt, R-Mo., said he is certain the bill will move "quickly to conference" with the Senate's CARE Act so Bush can sign it into law this year. The Senate cleared the CARE Act earlier this year by a 95-5 vote.

House members generally agreed on the tax cuts in the bill to encourage giving. H.R. 7, the Charitable Giving Act, would:

- allow taxpayers age 70-1/2 and over to distribute tax-free IRA donations to charitable organizations and to split-interest entities effective 2004-2013 (\$2.8 billion over 10 years);
- allow taxpayers who do not itemize to deduct cash contributions in excess of \$250 (\$500 for joint returns) effective in 2005 and 2006 (\$2.9 billion over two years);
- gradually raise the cap on corporate charitable contributions from 10% to 20% in 2012 (\$1.5 billion over 10 years);
- extend the section 170 deduction for wholesale food inventory to all businesses effective 2003-2013 (\$643 million over 10 years);

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- change the 2% excise tax on private foundation net investment income to 1% (\$2.3 billion over 10 years);
- expand the charitable contribution allowed for scientific property used for research and for contributions of computer technology and equipment (\$1.5 billion over 10 years);
- modify the tax on unrelated business income of charitable remainder trusts;
- adjust the basis of S corporation stock for some charitable contributions;
- suspend the tax-exempt status of terrorist organizations;
- clarify that the church tax inquiry procedures do not apply to contacts made by the IRS for the purpose of educating churches about tax laws governing tax-exempt organizations;
- extend declaratory judgment procedures to non-501(c)(3) tax-exempt organizations;
- exclude some landowner incentives program payments from income;
- modify the tax treatment of some payments subsidiaries make to controlling exempt organizations;
- eliminate the separate limitation on grassroots lobbying; and
- create a pilot program for forest conservation using tax-exempt bonds.

The Chester County Community Foundation will keep professional advisors updated on the status of this legislation. Most significantly, the IRA Rollover portion aims to make it easier than ever for IRA holders over the age of 70 1/2 to make the gift of a lifetime and realize substantial tax advantages.

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YEAR END TAX PLANNING REMINDER

Staff of the Community Foundation is on-hand to discuss charitable philanthropic options that may come up in year-end tax planning.

1. Although the Charitable Giving Act is not expected to take effect until January 1, 2004, the Community Foundation provides IRA Charitable Rollover services and can address charitable and financial considerations in anticipation of the tax laws enactment. Individuals most likely to be interested in the opportunity are:

- those now taking minimum IRA distributions who do not need the distributions for income.
- those interested in making a significant lifetime gift.
- those looking for an additional source of lifetime income who may value the charitable impact and tax advantage they can receive by making life-income gifts.

2. Tax planning idea...Your client has just earned a large bonus and wants to give a portion back to the community, but has no time to decide on the most deserving charities. Recommend establishing a Donor Advised Fund through the Community Foundation for an immediate tax deduction and the ability to stay involved in recommending uses for the gift for years to come.

3. Tax planning idea...If your client has a significant amount of individual charitable contributions to different organizations, the Community Foundation can work with your client to assist in making their charitable giving as simple, efficient and effective as possible.

- At the Community Foundation, donors can easily create a donor-advised, field of interest, or scholarship endowed or provisional fund with cash or stock gifts. \$10,000 is required to start a fund. Gifts of any amount are welcome to existing funds. The Community Foundation charges 1% for endowed funds and 2.5% for provisional funds.
- Gifts of cash are fully deductible, up to a maximum of 50% of adjusted gross income. For example, if adjusted gross income for 2003 is \$200,000, up to \$100,000 of charitable gifts may be deducted in 2003. Any excess can generally be carried forward and deducted over as many as five subsequent years.
- Gifts of stock offer donors a two-fold tax savings. First, there is no payment of any capital gains tax on the increase of the value of appreciated stock. Second, donors receive an income tax charitable deduction for the full fair market value of the stock at the time of the gift. Gifts of appreciated stock are fully deductible, up to a maximum of 30% of adjusted gross income. For example, if adjusted gross income for 2003 is \$200,000, up to \$60,000 of long-term appreciated stock and other property gifts may be deducted in 2003. Any excess can generally be carried forward and deducted over as many as five subsequent years.