

# The story of the hurricane

In the wake of the devastation caused by Hurricane Katrina, Americans are opening their hearts and wallets to help the affected communities in the Gulf Coast. In response, Congress has passed the Katrina Emergency Tax Relief Act of 2005. This bill contains tax breaks for the victims of the hurricane, as well as for those donating to the recovery process.

The 50 percent cap of adjusted gross income on charitable donations is lifted for any donation made between August 28, 2005 and December 31, 2005. In addition, funds contributed from any IRA or 401(k) can be donated to a qualified charity without tax consequences after age 59½. If your client has amassed a sizable nest egg in their defined contribution plan and has a charitable bent, consider using that asset as a large donation to charity.

Assume Sarah Jones, age 65, has an IRA worth \$3 million and \$150,000 in adjusted gross income this year. She wants to donate \$1 million to her favorite charity. Next year, she will only be able to use \$75,000 (50 percent of her adjusted gross income) as a tax deduction. But this year, the \$1 million IRA withdrawal will increase Sara's income to \$1.15 million. She can now deduct the full \$1 million, effectively removing excess estate assets.

Under KETRA, cash donations can be made to any qualifying charity. The IRS is teaming up with a coalition of business and charitable associations for a leave or donation program to benefit the victims of Hurricane Katrina. Under this program, a client can donate unused vacation, sick leave or personal days. The client's employer will then convert the leave and contributes the cash to a qualified charity. The benefit to the employer is the ability to take either a



business or charitable deduction for any amount sent to the charity.

With any charitable donation, remember that tax-exempt doesn't always mean tax deductible. Tax exempt means that the charitable organization does not have to pay taxes. A charity must file to obtain tax-exempt status under the Internal Revenue Code Section 501(c)(3). The IRS looks at

these filings to determine if the charity is organized and operated for the charitable purposes specified in the code. The IRS approval does not mean it approves of specific charities nor does it judge other aspects of the charity's efficiency. Check IRS Pub 78 at <http://apps.irs.gov/app/pub78> to find out about the tax status of a client's favorite organization.

Take a look at the tax benefits that are available for a \$5,000 contribution to a qualified charity:

TAX BRACKET	OUT-OF-POCKET COST
25	\$3,750
28	\$3,600
33	\$3,350
35	\$3,250

If a client is volunteering his services to a charitable organization, he cannot deduct that value. He can however deduct any out-of-pocket expenses associated with volunteering, such as uniforms, gas or bus fare.

Philanthropy is defined as an active effort to promote human welfare. It is a tradition based on giving and sharing for quality of life. It is fortunate that our tax system recognizes our gifts. With the devastation in the Gulf Coast, this added incentive helps our American relief effort while relieving some of your clients' estate tax burden.

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