Maximize Gifts and Enjoy Tax Savings This Fall

This has proven to be a year that has required more thought than usual regarding tax and financial planning matters, including the form and timing of one’s charitable gifts.

Many factors can play an important role in helping determine how much to give. For example, the after-tax cost of a gift can depend on its timing, your tax rate, whether you give cash or other property, the possible impact of the alternative minimum tax (AMT), and other considerations.

When Should I Give?

Traditional tax planning often involves accelerating deductions for the current year and delaying income, where possible, to a later year. This approach results in minimizing income taxes in the current year, while delaying taxes until a later date. If income tax rates are expected to rise in the future, this strategy is normally reversed, with income accelerated into the lower tax rate year and deductions delayed until higher tax rates make them worth more in the future.

However, many advisors are advising their clients that this year may be different. Because of tax law uncertainties, there are a number of reasons why it may be more beneficial to complete gifts in 2010.

For Example

Suppose you are considering a charitable gift of $10,000. If you make the gift this year, it can be deducted against a maximum tax rate of 35%, and the after-tax cost of the gift will be $6,500.

The rule that reduces itemized deductions for high income earners is scheduled to be reinstated in 2011. Therefore, by waiting until next year to make a gift, much of the tax benefits of giving could be eliminated for some.

Federal budget proposals are also pending that would further reduce the benefits of charitable gifts and other itemized deductions next year. If deductions for charitable gifts were to be limited along with other deductions to the 28% tax bracket, for example, the tax savings for the $10,000 gift previously described would decrease. The after-tax cost of the gift in 2011 would be $7,660, or an increase of $1,160, in additional taxes on the donated amount.

As a result, perhaps the most tax-wise strategy this year is to accelerate income where possible and offset additional taxes by increasing deductible charitable gifts.

Considering a Roth Conversion?

It has been reported that as many as 14 million persons may consider converting a traditional IRA to a more tax-favored Roth IRA this year.

One way to take advantage of the planning ideas presented above is to accelerate income in 2010 by completing a Roth IRA conversion, and then utilize charitable gifts to offset all or part of the taxable income related to the conversion.
Suppose you and your advisors decide that it is advantageous for you to make additional gifts in 2010, but you are unsure of exactly how you wish the donated funds to be used. Maybe you would like to direct some of your contribution to the University with the remainder to other charitable interests, such as your church or synagogue.

The University of Alabama Donor Advised Fund (DAF) is a flexible tool that can help you make the most of your charitable giving. Similar in concept to a private family foundation, the DAF represents a much more cost-effective alternative that can provide comparable tax advantages.

How Advised Funds Work

To create a DAF, you simply transfer cash or other appropriate assets to the University and name your fund.

The timing of gifts from your fund is up to you or others you name. You can choose to make your gifts anonymously if you wish.

The DAF funds will be invested in accordance with your immediate and/or long-term giving goals. All fund maintenance, investment management, distributions, tax reporting, and record keeping is handled by the University.

Making a larger gift using securities, real estate, or certain other property can make it possible to benefit from tax savings from a single transfer today. At the same time you will have more control over the timing of gifts to the University and other charitable interests in the future.

Deciding What to Give

The assets you use to fund your DAF or other charitable gifts may also help determine the amount you give (see chart at right).

- **Cash.** When you itemize your tax deductions, gifts of cash may be used to eliminate federal income tax on up to half of your adjusted gross income (AGI). Depending on where you live, you may also enjoy state income tax savings.

- **Securities.** Giving securities (stocks, bonds, or mutual fund shares) that have increased in value can bring additional tax savings. Such gifts are generally deductible at their full value if they have been owned for longer than a year. In that case, they can be used to offset tax on up to 30% of your AGI. As an additional benefit, no tax is owed on the capital gain that could be due from a sale of the donated securities.

- **Gift of Appreciated Property.** Giving appreciated property can also save taxes if you itemize your deductions. The cost basis is your basis in the property, which is the difference between your cost and any capital gains tax paid. If you have investments that are worth less than their cost, consider selling them and using the cash proceeds to make charitable gifts. This creates a loss that may be deductible from other taxable income, as well as a deduction for the amount of the cash contribution. The combined deductions for the cash gift and the capital loss may total more than the current value of the investment.

Don’t Delay

As you can see, a minimum amount of time spent planning your charitable gifts for the remainder of the year can result in maximum tax benefits. Remember that tax savings, as always, depend on completing your gifts by December 31.

Return the enclosed card, call, or visit [ua.aboutgiving.net](http://ua.aboutgiving.net). We will be happy to provide you or your advisor with more information on how you can establish your own University of Alabama DAF.

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**Comparing Gifts**

**Gift of Cash**

- After-Tax Cost
- Taxes Saved

**Gift of Appreciated Property**

- After-Tax Cost
- Taxes Saved

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**THE UNIVERSITY OF ALABAMA**

For more information, please return the enclosed confidential reply card or contact our planned giving staff:

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